

JPRS-CAR-92-016
20 MARCH 1992



FOREIGN
BROADCAST
INFORMATION
SERVICE

JPRS Report

China

China

JPRS-CAR-92-016

CONTENTS

20 March 1992

POLITICAL

| | |
|---|----|
| Skepticism Voiced About Industrialization [DUSHU 10 Nov] | 1 |
| Socialist Education in Rural Areas Examined [QUISHI 16 Dec] | 4 |
| Strained Relations Between Rural Cadre, Public [SHEHUI 21 Nov] | 11 |
| Stability, Development 'Major Issues' in 1990's [SHEHUIXUE YANJIU 20 Sep] | 13 |

ECONOMIC

NATIONAL AFFAIRS, POLICY

| | |
|---|----|
| Results of 'Double Guarantee' Policy [JINGJI GUANLI 5 Dec] | 18 |
| 'Weakening' Factory Director Responsibility [JINGJI YU GUANLI YANJIU 8 Dec] | 22 |
| Restructuring Official on Accelerating Reform [TIGAI XINXI 20 Dec] | 26 |
| Contract Management System, Development Viewed [CAIMAO JINGJI 11 Oct] | 30 |

AGRICULTURE

| | |
|---|----|
| Hainan Establishes Agricultural Stock System [JINGJI CANKAO BAO 26 Jan] | 36 |
| CASS on Zhengzhou Wholesale Grain Market [ZHONGGUO NONGCUN JINGJI 21 Dec] | 36 |

SOCIAL

| | |
|---|----|
| Problems Facing Social Organizations [GAIGE 20 Nov] | 40 |
|---|----|

REGIONAL

| | |
|---|----|
| Shanghai Commentary Decries Illegal Publications [Shanghai Radio] | 43 |
|---|----|

HONG KONG, MACAO

| | |
|---|----|
| Beijing Views Governor's Departure [TANGTAI 15 Jan] | 44 |
| Chang Chien-chuan Discusses Post-1997 Politics [TA KUNG PAO 25 Jan] | 44 |

Skepticism Voiced About Industrialization

92CM0104A Beijing DUSHU [READING] in Chinese
No 11, 10 Nov 91 pp 15-21

[Article by Wu Huailian (0702 2037 6647): "Skepticism Voiced About Industrialization and Urbanization"]

[Text] *China Out of Balance*, subtitled "The Past, Present, and Future of the Urbanization of the Countryside," is one of the products of the research project called "The Industrialization and Urbanization of the Chinese Countryside and the Modernization of Agriculture," which was conducted by the Ministry of Agriculture's Department of Policies, Laws, and Regulations. After reading the work, particularly the first six chapters (the core of the book), I feel wholeheartedly that it is a remarkable book, in that it is interesting and penetrating and a distillation of the author's ideas. However, appealing is not the same as truth; things that a person perceives may not necessarily exist in society. Thus I am prompted to put forward some different ideas.

In 1954 an American economist, William Arthur Lewis, came up with the idea of a dual economic structure. According to Lewis, the economies of developing nations are characterized by dualism: a modern industrial sector and a traditional agricultural sector. The surplus labor of the traditional agricultural sector should migrate to the modern industrial sector. Alternatively, it may ultimately be absorbed by the modern industrial sector. The book's author devotes much space to an analysis of China's dual—urban and rural—social structure, and of the 14 specific systems that have resulted in the urban-rural schism, including the permanent-residence registration system, grain-supply system, residence system, and employment system. The author asserts that the dual social structure would do all sorts of harm to China's modernization without helping it at all. Many a paragraph seems to give us the impression that the author considers the dual social structure, which epitomizes the state of the nation, to be the product of a conscious policy on the part of an individual or individuals. We seem to hear the author say, "Look! This is what is wrong with China: the dual social structure. Why bother to preserve it? Tear it down, and China will be saved. Only then will there be hope for modernization. Otherwise, China will never be modernized as a whole." (*China Out of Imbalance*, by Guo Shutian [6753 2579 3944], Liu Chunbin [0491 4783 1755], et. al., Hebei People's Publishing House, November 1990, p 28)

As far as China is concerned, the shortcomings of dualism have become increasingly evident. Not only has it robbed the socialist economy of its inherent efficiency, but it has also precluded the true realization of the socialist principle of fairness. There is no doubt about that. However, given the fact that the dual social structure has endured in China for almost 40 years and is still going strong, we cannot help but recognize that it has some rational elements and some features that dovetail with China's national conditions. If China is to achieve modernization independently, keeping the initiative in its own hands and without causing a disturbance, it seems that it has no choice but to go the

dual route. The dual social structure is not the product of a crazy leader or leaders, but results from a particular background and a specific set of circumstances. The author asks, "Is there a solid *raison d'être* for some of the institutions created by China's dual social structure?" Good question: in terms of substance, some of the systems should and can be done away with over time. In terms of their underlying spirit, however, I am afraid they cannot be abolished now or in the future (as long as the background remains unchanged). Take the permanent residence registration system, for instance. "All people under heaven have long suffered from the residence registration system." But it is difficult to abolish it. At present the dual social structure is like a nine-headed bird; chop off one head and another head will emerge. Just think, how long have we been talking about narrowing the urban-rural gap (another expression for the dual social structure)? What has happened? Has the gap widened or narrowed? Why? This is something well worth mulling over.

We can trace the roots of the dual social structure to the industrialization and urbanization that began in the 1950's. In China, urbanization and industrialization took a route different from that in the West, a route different even from that in other developing nations. Specifically, the Chinese route gave priority to heavy industry. To develop heavy industry rapidly, so that it would catch up with and overtake the West quickly and without substantial foreign aid, the government had no choice but to sacrifice the interests of agriculture and other non-industrial sectors and raise huge amounts of start-up and other funds to keep heavy industry going. To give the new industrial city as modern a look as that of its western counterpart, we were forced to resort to administrative fiat and institute such things as the permanent-residence registration system and grain supply system. This erected a high wall separating town and countryside to prevent the rural population from pouring into the cities and sharing the benefits of urban residents, which would have lowered the level of modernization of urban life. Moreover, these systems siphoned rural talent and resources into the city and industry through a particular channel, in order to maintain the "momentum" of industrialization and urbanization. Looking back now, we see that what the dual social structure essentially has done is not so much to separate the city from the countryside as to adjust urban-rural relations to better fit the demands of industrialization and urbanization on a priority basis. Industrialization and urbanization are the underlying causes of the formation and development of the dual social structure. The latter, in turn, is a social expression of urbanization and industrialization. Urbanization and industrialization are the causes, the dual social structure is the effect; the former is substance, the latter is the form.

Emotionally, of course, we are all for the abolition of the dual social structure. But not until we consider the real extent to which modernization needs urbanization and industrialization, taking a broad perspective and a long-term view, finding a way to promote industrial and urban growth without harming the interests of agriculture or of peasants, and preserving existing economic efficiency even

as we ensure social justice—which would thus uproot the very soil that has given rise to the dual social structure—can we eradicate the dual social structure totally.

How will China modernize? The author suggests that we take the road of urbanization and industrialization. He writes:

"The idea of four modernizations is not as good as that of national industrialization. As a goal, the latter is simpler, more explicit, more precise... Industrialization can be made consistent with modernization." (Ibid p 83) "How can the look of industry in the countryside be fundamentally altered? The answer is industrialization." (Ibid., p 92) "Industrialization and urbanization are part of the normal development process and cannot be bypassed. Universal laws of development are what play a leading role. The intensive mode of urbanization we advocate is essentially no different from that of Western developed capitalism." (Ibid p 103)

What we must analyze is this: What are the effects of this medicine? Is it the right medicine for the illness in question?

However, first we must define these basic concepts: modernization, industrialization, and urbanization. The author does not define modernization, but judging from what he says in the book, modernization means industrialization and urbanization. As for industrialization, while the author uses the term frequently, only in one instance does he really define it: "The overall level of Chinese industry matches that of developed nations and China's per capita national income equals its counterparts in developed nations." (Ibid., p 83) On urbanization, the author says, "A basic yardstick in measuring the extent of urbanization in a nation is the size of its urban population as a percentage of total population." What is urban population? In the author's opinion, only non-agricultural population can be considered urban population. The author proposes that the proportion of township non-agricultural population be used to measure the level of urbanization. I largely agree with this definition, but have difficulty endorsing his view on modernization. Under a currently popular theory, there is a dual meaning to modernization. One, it may denote the movement (process) that will lead to the achievement of a certain objective. Two, it may mean the objective that is hoped for or is being realized. To my mind, modernization is a long, drawn-out historical process, one in which Chinese society makes steady progress, thus gradually narrowing its gap with other nations, particularly the West. If industrialization and urbanization do enable China to make steady progress, both absolutely and relative to the West, then I will acknowledge that industrialization and urbanization are the specific form and objective of modernization. Otherwise, we cannot say that urbanization and industrialization are the objective of modernization. If China fails to catch up with developed nations, does it mean that China will never be industrialized? The contemporary United States is no longer an industrial society, but a post-industrial one. Countries like Japan, too, are doing everything possible to move secondary industry offshore—that

is, out of the nation—and are devoting themselves to the tertiary sector. Some people think that in a few decades Japan will no longer dominate the world mainly through industry but through capital and high technology. So what are we trying to catch up with and overtake? If we want to catch up with and overtake the United States and Japan, what should we really do? Develop conventional secondary industries? Or make developing high-technology industries a priority? The author apparently divides economic activities into two categories. He regards all advanced productive activities as industries, and all traditional backward productive activities as non-industries. This is an unscientific classification method. The popular classification method is three-tiered: namely primary industries, secondary industries, and tertiary industries. Therefore, I suggest that industry refer to secondary industries and that industrialization refer to the process whereby secondary industries become highly developed and acquire a dominant position.

It follows that we cannot equate China's industrialization with modernization. Historically China did not lack this lack of industrialization. Ever since the westernization movement of the late Qing Dynasty, the Chinese have been making attempts at industrialization. Over the past century and more, we experimented with a market economy, a planned economy, and so on, with notable success. Be that as it may, China remains a developing nation today, and its gap with developed Western nations is still as wide as ever. To put it differently, industrialization has not lifted China to a level commensurate with modernization. The reason is that in China industrialization took place against a background totally different from that in the West. Not only did we lack the external conditions that the West had in its early phase of industrialization (namely, colonies), so that we could not use the predatory colonial methods of the West to raise capital and open up markets, but we also had to confront a domestic market that was shrinking daily as a result of Western incursions. Chinese industry was like an infant that was congenitally weak and that suffered from postnatal neglect as well. If industrialization did not enable us to catch the last bus of modernization in the early and mid-20th century, we cannot possibly hope to do so in the last decade of the 20th century and the next century by continuing to do business as usual. Right now there are three main obstacles to industrialization that will be difficult to surmount. First, fund shortages. Without sufficient external assistance, we would still continue to raise funds for industrialization in the same old way: take money from agriculture to maintain the dual social structure. No doubt this is not what the author wants to see. Second, markets. Advocates of industrialization are always only too ready to believe laissez-faire economists' talk about market justice, and they put their hope in the "export-oriented" and "international circulation" strategies, little knowing that they are falling into a big trap. These days all developing nations are scrambling to jump on the bandwagon of industrialization. Everybody is playing the "earn-foreign-exchange-through-exports" card. Consequently, every developing or newly industrialized nation is slashing

prices to undersell one another in the international market for semifinished industrial products. Naturally the beneficiaries of this struggle are developed Western nations. To gain a foothold, therefore, Chinese products must be prepared to engage in a life-or-death struggle, a bloody fight. But that is not all. Nowadays, in the name of "human rights" and "democracy," Western nations punish those countries that refuse to toe the line at the drop of a hat, or they simply resort to the deadly weapon of "tariff protection." In the early days it was the West that was at the receiving end of China's "tariff protection." We closed our door and they shelled us with their big guns. In the Opium War, they attacked us, and then turned around and said we did not play by the rules. Now they are closing their door. But do you have the military muscle to defend the sacred market principle? Third, population. As we all know, industrialization is essentially anti-labor. To hope that replacing labor-intensive agriculture with capital-intensive industry will provide jobs for hundreds of millions of people in China, and particularly to hope that the entire rural population will leave the land and the village, thus turning hidden unemployment into open unemployment, is to put the cart before the horse. The resulting unemployment problems will be worse than those in other developing nations. This does not bode well for the future of industrialization. Global issues that are expected to get increasingly worse in the 21st century—the energy crisis, ecological destruction, environmental pollution, and overpopulation—are making the developed nations tremble with fear. They are shifting gears one after another. Some are going post-industrial; others are taking the information route. What tricks do we have to help us stay immune to these problems?

The author of the book also looks to industrialization as the tool to change peasants' identities and bring about agricultural progress. He cites United Nations' projections that 50 and 80 percent of the world's population will live in cities by the end of this century and by the mid-21st century, respectively. What are these projections based on? If such a trend continues, the world's entire population will have nothing to do with the countryside by the end of the next century. What will happen overseas I don't know, but this is an extremely remote possibility in China. The kind of urbanization proposed by the author is not urbanization in the ordinary sense of the word. What he has in mind is intensive urbanization. He would like to see rural industry become urban industry and peasants uproot themselves totally from the soil and the village and settle down in large and medium-sized cities. He writes, "Large and medium-sized cities have a huge capacity, enough to accommodate all those who are willing to live and work in an urban area." (Ibid, p 95) If you do not want to live there, that will be another story. The author says this is not propaganda, but a proven experience in many countries. What countries? Indonesia, Bangladesh, Egypt, and Venezuela? Shanty towns in Third World cities may yet be able to shelter many more rural migrants from the elements, but large and mid-sized cities in China probably do not have an endless supply of mat sheds to accommodate the hundreds of millions of peasants who are willing to live

and work in the city. Once peasants with nowhere else to turn start to wander in the wilderness and gather in the mountains, what are you going to do? The author says he is not worried about a peasant uprising, but that is exactly what I fear.

After rejecting industrialization and urbanization as the only road China can take to modernization, are we to return to the beaten path of agriculturization? Are we to conclude that we now no longer need to develop industry and cities? My answer is that this is not an either-or situation, that there is a third way. We must develop industry and cities, and do so with a vengeance, but only in tandem with the tide in the world economy and only in a way that is relevant to agriculture, the countryside, and the peasant. The former is what China's social progress needs, the latter is what its social stability requires. One may ask: Without urbanization, what is the future of the Chinese countryside? Without non-agriculturalization, how are Chinese peasants to become rich? If surplus manpower is not relocated, how is agricultural progress possible? My answer is this: There are hundreds of millions of redundant workers in the countryside, but in a vast majority of cases, it is a question of relative redundancy. Relocation does not just mean shifting manpower from agriculture to non-agriculture, not at all. Within agriculture itself and within the countryside, river control, water conservancy works, planting trees on barren hills, building roads: all require a massive amount of manpower. The problem is money. If money is available, people will do it. Why don't these sectors have money? There is no investment. Do we need to shift manpower out of agriculture? Yes, but the shift need not be in one direction only: toward large and medium-sized cities. What about small towns? What about hamlets? We object to urbanization and industrialization because they cannot solve China's rural problem at its root. Making agriculture a priority—that is what really counts today. If you pay attention to the countryside and make agriculture a priority, then people will take pride in farming, and will then farm their way to wealth. If you neglect the countryside and slight agriculture, people will be ashamed of farming and will try to get rich by non-agricultural means. When that comes to pass, even the most foolish peasant would scramble to get out of agriculture.

The author puts forward many excellent policy proposals on how to reform the dual social structure, on urbanization, and on agricultural progress. Examples are his suggestion to raise grain-selling prices and replace hidden subsidies with open subsidies, and his ideas about introducing social insurance and reforming the housing and health care systems. All of them are feasible and some have actually been implemented. However in my opinion other suggestions, such as selling certificates of honor to raise funds for educational purposes and selling urban-residency registrations, must be looked at more closely. Since these are detailed points, I do not propose to discuss them at length here. One major problem with them is that they will not work. Quoting an economist, he writes on the title page, "It is not the difficulty of a task that makes us timid. It is our timidity that makes a task difficult." To my mind,

though, the feasibility of something can be determined only through a detailed analysis. We cannot depend on boldness alone.

As noted above, this is an interesting and penetrating book. The author's courage is to be commended, and his opinions too must be carefully mulled over. This article comments on some issues raised in the book, and is not intended to denounce the entire work.

Socialist Education in Rural Areas Examined

HK1902073592 Beijing QIUSHI in Chinese
No 24, 16 Dec 91 pp 30-36

[Article by Mou Lingsheng (3664 3781 3932), deputy secretary of the Shaanxi Provincial CPC Committee: "A Major Strategic Measure To Intensify Socialist Front in Rural Areas"]

[Text] Practice Has Changed People's View of Socialist Education in Rural Areas

Socialist ideological education in our province started in August 1990. Up to now, 1,551 townships and towns and 17,520 administrative villages, 58 and 54 percent respectively of all townships and towns and administrative villages in the whole province, have launched or are in the process of launching socialist education. This rural socialist education attracted no widespread attention at first, and some of the people who concerned themselves with the matter also had misgivings. The misgivings have been cleared after more than a year's practice. The outstanding achievements in rural socialist education and the warm responses from vast numbers of peasants and cadres have not only aroused great interest among people but also surprised those comrades who have long been dealing with rural work.

During more than one year's socialist education in rural areas, almost 100,000 cadres, including over 60 cadres at the provincial department and bureau levels and over 2,340 cadres at the county and section head levels, were dispatched from provincial, prefectural, county, and village organs throughout the province to form nearly 20,000 work teams (groups). Bringing with them their luggage to villages and households, they "ate, lived, and labored together" with the vast numbers of peasants, a move not seen in the past several decades. Before entering villages, the work teams had undergone vigorous training and made full preparations. Right after entering villages, they helped party branches organize study meetings for party members, cadres, and masses to discuss major issues, reason things out, present contradictions, find out where they lagged behind, and do practical work. They led the masses to redress the faces of their villages, restore irrigation facilities, initiate welfare work, and formulate plans for economic development. Together with the cadres and masses, they put financial affairs in order, checked accounts, investigated and dealt with problems, and set up systems. In cooperation with procuratorial and judicial departments and with close dependence on the masses, they radically curbed unhealthy practices and evil phenomena and cracked down on criminals in an effort to

rectify social order. Through more than one year's efforts, new scenes have emerged in the rural areas and the spiritual outlook of peasants has taken an altogether new aspect.

It is now easier to solve the long-standing problems in the rural areas, such as the difficulty in accumulating and retaining common funds in collectives, the difficulty to fulfill quotas for grains purchased by the state, the difficulty to implement family planning, and the difficulty in holding meetings. The construction of organizations at the village level with party branches as the core has been further strengthened, the lax situation has been changed, and the problems of party organizations being paralyzed or semiparalyzed have been basically solved. Rural collective financial affairs have been seriously checked and rectified with various management systems being set up and perfected and the problem of "clear at first but becoming disordered later" initially solved. Rural social order and styles have markedly changed for the better, and criminal cases, such as theft, robbery, murder, and drug trafficking, decreased by big margins.

In short, the majority of places where socialist education has been intensively conducted has had an exciting face-lift. The lax situation that has existed for a long time has been wiped away completely; the spirit of cadres and masses has been roused; the face of villages has been renewed; production developed vigorously; public welfare works have flourished; and all fields of endeavor, such as economic construction and family planning, are advancing faster than in other places. A good momentum of reform and development rarely seen in many years has emerged. These have greatly raised the party's prestige in rural places. The masses of peasants said gladly: "The Communist Party's style has come back again." A few years ago, cadres going down to villages were "big officials looking for small officials, which has nothing to do with us." This time they "entered our door and acted like our own people," "they were strangers when entering the village, became acquaintances after settling down, were benefactors after solving problems, and became family members when leaving." When the socialist education ended, moving scenes happened in many places in which the masses beat gongs and drums, set off firecrackers, and presented inscribed boards to send off the work teams. Some elderly comrades said the scenes were rare since the land reform.

Of course, these scenes represent the good side of socialist education in rural areas and the mainstream. But socialist education tended to fall into generalizing in some villages, other villages did not completely accomplish the task of socialist education, and some even did it superficially. Nevertheless, the majority view of socialist education has changed. On the one hand, the accomplishment of socialist education in rural areas is indeed outstanding; on the other, the psychological factors of people's low expectations for it increased the effects of socialist education.

Socialist Education in Rural Areas Is the Urgent Need of Vast Numbers of Peasants

Since the reform and opening up 10 years ago, profound changes have taken place in rural social and economic outlooks, and impressive achievements have been attained. This is the mainstream and should be affirmed. Many problems, however, do exist in rural areas, some of which are quite serious and have been accumulating for many years and cannot be solved in a short time. Peasants complain strongly about these, which are directly affecting the deepening of rural reforms and the further development of rural socio-economic development. Some conspicuous problems are as follows: some peasants are chaotic in their ideology and lack a sense of the state, collective, and public ownership of land; quite a few people mistakenly believe that the contract responsibility system on a household basis with remuneration linked to output means that the land can be split up to be worked by individuals; the power of collective unified management is weak; the double-tier operations in many village organizations actually "are weak at one level and thick at another, exist at one level but not at another"; some grassroots organizations are weak and lax; and a small number are paralyzed or semiparalyzed.

Things that should be administered have not been administered well and some do not have people to administer them; the management of collective financial affairs is in disorder which, to some degree, has affected the relationship between cadres and the masses; the general mood of society and the conditions of public order are not good, and in many places violations of law and criminal activities have increased, the evil winds and noxious influences of theft, gambling, and feudal superstition have surfaced again; and people do not have a sense of security.

The emergence of these problems in the countryside, though partial, have seriously damaged the party's relations and prestige with the masses, directly affected implementation of the superior new system based on the contract responsibility system on a household basis with remuneration linked to output, and even affected rural social stability. These problems make some people feel that with life becoming better, people's minds have become loose and feel at loss about the future. The fact that collective financial power has become weak has made some people feel that "the collective is like a god who cannot be seen or touched and is unreliable." The fact that some grassroots organizations are weak and loose with a small number paralyzed or semiparalyzed make some people feel like "contracting land to households with no need for party branches and each making his own money and going his own way." The chaotic management of collective financial affairs makes people lose confidence in the collective economy and enthusiasm in public welfare work and feel no trust for grassroots cadres. The fact that society's general mood and social order are not good makes them afraid of theft when engaged in diversified undertakings and of stealing when making money. They can neither indulge in work nor live in peace, which has resulted in the mentality that "affluent living is no more secure than being poor." These problems, which are closely related to the

masses' interests, will shake the basis of the party in the countryside if they are shelved for a long time and allowed to develop by themselves. In fact, the masses started to anticipate a long time ago that someone could come and help them solve the problems. So, once the work teams entered villages, the masses said: "The Communist Party has come to work again." This remark, though exaggerated, has reflected the common people's views of us and also expressed that they still have hope in the party, in the belief that once "the party works again," it will be a family member again.

Now, to march from the stage of having enough food and clothing to that of being comparatively well-off, to become rich, to need services, and to solve the "difficult" and "hot points" about which they are very concerned, who will they depend on? It will still be the Communist Party. In their minds, only the Communist Party is reliable and can solve the problems that concerned them. This simple truth, which has been repeatedly proven in the test of 28 years of revolutionary wars and more than 40 years of socialist practice, is the fundamental reason the vast numbers of peasants have responded warmly to socialist education.

Why have the above-mentioned serious problems occurred in the countryside? First, we should affirm that this is not caused by reform. We should clearly see that when the big contract system was implemented, many of our comrades lacked the necessary preparations in ideology, theory, principles, and organizations, and much work lagged behind. This has unavoidably led to many confusions and doubts and even the occurrence of ideological confusion. Some peasants said: "We have regressed to the level before liberation after 30 years' hard work," "the Communist Party used to love the poor, now the Communist Party loves the rich." It reflected a common mood among the masses of the peasants.

Second, since reform, two great changes have taken place in the countryside—one in economic structure and the other in the change from a natural economy to a commodity economy. In these two changes, the rural economic relations; social relations; production modes; and the peasants' way of thinking, sense of values, and behavior characteristics have all undergone great changes. In the consciousness of the peasants, they are reflected in that some criterion of right and wrong they were familiar with and applied for thousands of years have now become vague and confused and that even some criteria for right and wrong they acquired after being instilled with socialist ideas for decades have become vague and confused. Things previously believed to be right are now wrong; things previously believed wrong are now right. Under the new situation, what is needed is to strengthen ideological and political work in the rural areas and the positive instillation of socialist ideology. The actual situation, however, turns out to be the opposite. For a period of time, we relaxed rural ideological and political work and education to the peasants, which resulted in the tendency of stressing material progress at the expense of cultural and ideological progress.

Third, the two great changes in rural areas have also deeply affected the rural grassroots management structure. Many of the original grassroots structures, management methods, and work styles from townships and towns to villages and groups have become obsolete and must undergo necessary reforms in accordance with the requirement of the contract responsibility system on a household basis with remuneration linked to output. But we have not carried out enough studies on the problem and have not had a clear understanding of it or relaxed organizational construction at the grass-roots level. This has resulted in a situation where the old management systems are no longer applicable but new ones have yet to be established. In addition, we did not spend much effort to consolidate the double-tier management system several years ago. The power of collective unified management was generally weak and we lacked the spiritual power, material means, and organizational basis to attract and unite peasants. Therefore, rural grass-roots organizations have become lax to a considerable extent and degree and their ability of self-education and self-management and of handling their own problems is seriously weakened. Peasants have become less organized. The party's rural policies cannot be correctly implemented in the grassroots, and a large number of problems that should be constantly solved at rural grass-roots organizations have been accumulated with minor problems becoming major ones, new problems becoming old ones, and simple problems becoming complicated ones.

Fourth, for a certain period of time, some of our comrades were satisfied with the great achievements in economic reforms and indulged more in the good side and often neglect the bad side. Particularly in recent years, we have lost much of the fine style of work, such as going deep into the countryside and eating, living, and working together with the masses; acquired only a superficial knowledge of the actual situations in rural areas; and failed to deeply probe the seriousness of rural problems. We have not genuinely realized that the lax situation in the countryside has reached a stage where it can no longer be left unsolved. Just as said by the masses of peasants, "it would have been better if socialist education such as this had been carried out a few years earlier and the countryside would not have been as chaotic as it is."

The above-mentioned reasons can actually be summarized into two aspects: structural factors and factors in work. The masses of peasants believe it is mainly the problems in our work. They said, "It is not that we do not listen but rather that you do not speak"; "it is not that we are paralyzed but rather that you do not make it your business." Such remarks are very reasonable. Deepening rural reforms, setting up a grass-roots management structure in keeping with the contract responsibility system on a household basis with remuneration linked to output, gradually strengthening the collective economy, and enabling rural grass-roots organizations to conduct self-education and self-management and handle problems on their own will undoubtedly need a process of exploration and development and cannot be achieved in a short time and once for all. But during the period, if we strengthen our work, we

can solve the conspicuous problems that exist in the countryside. This time we have made up much of our mind to dispatch a large number of cadres to the countryside to carry socialist education to the peasants by the method of giving unified leadership, concentrating a certain period of time, coordinating with all sides, and fighting an all-out war. This is an effective way to rectify the lax situation in the countryside and a road that must be passed to consolidate rural socialist power.

Basic Experiences Gained in Socialist Education in Rural Areas Over the Past Year

Why is it that we can achieve such remarkable results in rural socialist education? In summarizing the experiences of more than one year, the most important are:

First, there must be a correct guiding idea and well-defined work and task.

Against the backdrop of reform and opening up and the development of a planned commodity economy, the carrying out of socialist education in rural areas is a new thing. Various misgivings existed from the beginning when experiments were carried out in selected spots. Simply stated, there were "four things to be afraid of"—cadres were afraid of "leftism," namely, repeating the leftist practices in socialist education in the 60's; the masses were afraid of "smoothing things over," namely, work teams would "splash wet mud on clean walls" and do only superficial things; rich households were afraid of "changes," namely, the change of the party's basic policy in the rural areas; and the higher authorities were afraid of "chaos," namely, some leading comrades were worried that the countryside would be put into chaos if the matter was not handled well.

These misgivings are understandable. By summarizing the experience gained in experiments in selected spots, the provincial party committee clearly defined the guiding thought for this round of socialist education in the countryside as follows: carry out and implement the party's basic line; uphold economic construction as the center, ideological education as the major line, and the strengthening of grass-roots organizations as the priority; concentrate on solving conspicuous problems in rural areas; handle well the construction of all systems; and promote the sound development of rural reform and the commodity economy. By holding economic construction as the center and defining the fundamental goal of socialist education as pushing forward the development of social productive forces, this guiding thought draws a clear demarcation line with the leftist guiding thought in socialist education of the 60's, which "took class struggle as the key link" and "made capitalist-roaders within the party the target of attack." This guiding thought further emphasizes the major line of instilling socialist ideology to the peasants by positive examples and stresses that ideological education must be closely linked with reality. The construction of rural grass-roots organizations should be taken as the priority and great efforts should be made to solve the problems of "hot" and "hard points," with which the common people are

very much concerned. This makes it different from the practice of deviating from reality in the rural area and doing things superficially.

Based on this guiding thought, we definitely raised the four major tasks of this round of rural socialist education as "education, rectification, improvement, and training." Education means educating the vast number of party members, cadres, and peasants on the party's basic line, the basic rural policies, patriotism, collectivism, and socialism. Rectification means rectifying rural grass-roots organizations, collective financial affairs, and public order on the basis of ideological education with the construction of the village party branch as the priority. Improvement means improving the double-tier management system and gradually strengthening the collective economy on the basis of stabilizing the contract responsibility system on a household basis with remuneration linked to output. Training means training, at the later period of socialist education, rural cadres at the grass-roots level on the duty of their posts to raise their political consciousness and professional competence. These four tasks are not only conspicuous problems that urgently need to be solved in the countryside at present, but also strategic tasks for consolidating the basis of socialist ideology, power, economy, and cadres in the countryside.

Second, there must be a whole set of policies that is in keeping with rural reality.

Socialist education in our province has encountered many policy-related problems. The question of whether we can formulate policies from reality and seriously implement them has become the key that determines socialist education's success or failure. For this, the provincial party committee, while seriously summarizing the experiences gained in experiments at selected spots, has drawn lessons of the past and worked out six basic policies: first, uphold the party's mass line; rely on party organizations at all levels—party members, grass-roots cadres, and the masses of peasants; and believe firmly that vast numbers of party members, cadres, and peasants support party leadership and are willing to take the socialist road. Uphold positive education and self-education as the priority and do not take cadres and masses as the target of criticism. Through patient and detailed ideological education, we should set up examples and commend advanced elements to arouse the political enthusiasm of vast numbers of party members, cadres, and masses; stimulate their socialist zeal; and increase their sense of responsibility as the masters.

Second, we should believe that the majority of rural party members and grass-roots cadres are good or fairly good. We should focus on educating, helping, and improving vast numbers of cadres and encouraging them to work boldly. We should not make them overcautious. We should understand their difficulties, share their problems, and assist them in solving some real difficulties in their work and livelihood.

Third, with regard to a small number of cadres who have made mistakes, we should uphold the principle of "learning from past mistakes to avoid future ones and curing the

sickness to save the patients" and "unity-criticism-unity." We should solve problems as they are and not exaggerate them without limit or expand issues at our whim. Torture for evidence is strictly forbidden.

Fourth, resolutely carry out the party's various economic policies for the countryside and never change at will the contract responsibility system on a household basis with remuneration linked to output just because we stand for the collective economy's development. With regard to specialized households, self-employed industrial and commercial people, private enterprise owners, and peasants who become rich first, they should be encouraged to continue their development, and their legitimate rights should be protected as long as they obey the law in their operations and pay taxes according to regulations.

Fifth, in comprehensively rectifying rural public order, the work teams should carry out their operations within the extent permitted by law.

Sixth, strictly implement the party's policy on religion.

Based on this, the provincial party committee socialist education office, in conjunction with the provincial organization and propaganda departments, the provincial party committee rural research office, the provincial agricultural and animal husbandry department and public security department, and the provincial youth league committee, issued special documents. The documents are detailed in guidance and workable in operation, on separate issues, such as stepping up the building of rural party branches, doing a good job of ideological education, perfecting the double-tier management system, putting in order collective financial affairs, rectifying public order, and setting up socialist education teams, thus laying down rules for every process in socialist education. For instance, on straightening out collective financial affairs, 29 specific regulations were made concerning the time, extent, contents, and the objectives and requirements of straightening out; the setting up of systems; perfection of auditing teams; and ways to deal with problems left over from before the reforms.

In the past, as financial affairs were not open to the public, the masses had a lot of doubts and strong complaints. Through serious rectification, it is proved that the majority of cadres are good or fairly good. The masses and cadres have eased their concern and said: The screening of financial affairs has "made visible the collective's resources, exposed the bottom of cadres' boxes, brightened up the masses' hearts, and provided a basis for developing a collective economy" give cadres a "clearing up" and the masses an "understanding."

Third, a team of high quality, good structure, good style, and capable of waging an all-out war must be established.

The existing problems in the countryside have been left unattended for many years, and it is not feasible to solve them by relying only on rural grass-roots organizations. Therefore, we must select a batch of cadres with good political quality; strong work ability; and a good command of policies and rural work experiences from the province.

prefectures, counties, and townships to form socialist education work teams to assist local party and government organizations to jointly finish the major task. The number of people in each team can be determined by the size of the townships, towns, villages, and groups and each villagers' group must have at least one cadre not engaged in production. The provincial party committee has clearly stipulated that all young leading cadres at the provincial, prefectural, city, and county levels and reserve cadres at all levels must take part in socialist education at least once. More than one year's experiences have proved that the quality, structure, and style of work teams are crucial to ensuring the accomplishment and quality of socialist education. Where socialist education is well-conducted, the work team's characteristics will be:

- 1) Have a team leader who has high party spirit, a strong sense of responsibility, some experience in rural work, and a good understanding of the party's basic rural policies; the majority of team members have high quality with a good command of policies and ability to work individually; cadres selected from various departments are mixed together to form a team in which members compliment each other in terms of knowledge and age and which forms an overall superiority;
- 2) Have strict work discipline and a complete set of management and personal responsibility systems and render strict punishment to members who violate discipline;
- 3) Uphold the principle of "eating, living, and working together" with the peasants.

We have raised the slogan of "knocking at the door of all people, recognizing all households, eating with all families, caring for every home, and handling things for everyone" to narrow the distance in heart with common people.

Fourth, take ideological education as a major line throughout the work.

It is the first time in many years to carry out serious, intensive, and systematic instillation of socialist ideology towards peasants. At the beginning, some comrades worried that peasants would show no interest in socialist education. Through actual work, everybody has come to realize that peasants' fundamental interests are in close connection with the fate of socialism. Peasants have deep feelings for socialism and hope that party organizations can help solve problems and clear up any confusion. In all places, peasants participate in speech-making on "socialism in my town," "my village," and "my home." They discuss the histories of the country, their village, and homes and their personal stories and talk about the clothes they wear, the food they eat, the money in their hands, and the happenings around them to prove the theory in vivid and simple terms that "only socialism can save and develop China." The peasants remarked: "The meetings we have had, the policies we have heard, and the theories we have learned have made up the lessons missed for many years, and this looks like the Communist Party building socialism."

As to how to conduct well ideological education, the most basic experiences gained in all areas are as follows: First, persist in face-to-face explanation and systematic instillation. The provincial party committee has raised the task of "clearing up six issues" to let the peasants have "four understandings." These four consist of understanding why only socialism can save and develop China and that upholding the party's basic rural policies means upholding socialism; understanding that upholding public ownership of rural land, improving the double-tier management system, and developing the collective economy is the way to common prosperity; understanding that the vast numbers of peasants have the decisionmaking power to operate according to law and must fulfill their duty to the state and the collective; and understanding basic legal knowledge. Second, have a definite object in view regarding the actual ideological conditions of cadres and the masses and combine ideological education with the solving of the problems of "hot" and "difficult points" with which peasants are concerned very much. We should avoid two tendencies: to repeat what the book says without associating it with local actualities and dismiss the meetings hastily after the reading is over, and to regard ideological education as a "soft task" and a passing wind. Although we have solved some specific problems, the masses' ideological and political consciousness have not improved. Third, distinguish targets and teach separately at different levels. Fourth, apply fully lively and popular forms to mobilize the masses for self-education, put general principles into concrete terms, and visualize abstract theories.

Fifth, we must consistently uphold economic construction as the center and deepen rural reform.

Peasants call socialist education this time "new socialist education." What is new? Two things are the most important: The first is to consistently uphold economic construction as the center. The socialist education task can be summarized in one point—to promote rural economic development. A common understanding on this point has been reached at all levels in the province that the promotion of economic development shall be a major indicator of the quality of socialist education. The second is that socialist education is a major social movement to deepen rural reforms. Socialist education's task includes the important points of the current rural reforms, and socialist education creates favorable conditions for rural reforms. At present, in the development of the rural economy, peasants are eager for good unified management but afraid of "returning to the big collective;" hope that the collective is powerful but afraid that a handful of cadres will take advantage of it for personal gain; believe that the collective economy should be developed but afraid that this will cut into their "cakes." Ideological education has done away with these concerns. On this basis, every place has started to perfect the contract systems of all trades; improve village cooperatives; set up collective accumulation and socialized service systems; and formulate an economic development plan that has a definite goal, is correct in method with specific, easier-to-operate, and concise steps, and actively set out to implement it. Most places have also used money recovered from debts to develop some services

the peasants urgently need and set up a number of projects that are run by the collective. Some set up such "green industries" as collective orchards and forest and tea farms. Some apply their advantage in resources to open mines and factories, some develop building materials industries, construction industries, transportation, processing enterprises, and service trade, and some engage in exports of labor. Thus, a good momentum has emerged in the development of the collective economy. Villages and groups in the province that have finished socialist education have developed green industries covering 440,000 mu, an average of 40 mu for each village. Socialist education has also forcefully pushed forward rural production. Places that conduct socialist education have also seen their economy booming and going ahead of others.

Sixth, we must give a primary position to the grass roots with party branches as the core.

In the organizational rectification, we firmly believe that the majority of rural party branches, rural cadres, and party members are good or fairly good. Proceeding on this precondition, we have made particular efforts to deal with the following aspects.

First, uphold ideological rectification as the important point. The fact that many problems have emerged in the countryside during recent years cannot be blamed on grass-roots cadres. Therefore, for the majority of cadres, we must stress education, help, and improvement to strengthen their belief in socialism and lead the masses to common prosperity, help them straighten out work relations, improve work style, and promote cadres' relations with the masses, help them improve political, cultural, and technical quality and work ability to meet the requirement of reform and opening up, uphold the principle of changing more of ideologies than people and not initiating a "major reshuffle", arouse their work enthusiasm, and try not to hurt their initiative. In the more than 10,000 villages that have finished socialist education, 10 percent have reshuffled party secretaries, the majority of reasons were due to old age and weak physical conditions. This has stabilized the ranks of cadres and aroused the initiative of most cadres.

Second, uphold the party branches' core position and further straighten out relations between organizations at the village level. The party secretary post must be occupied by party member cadres with the strongest ability, and party branches must first administer well party members, give full play to their exemplary vanguard role and, at the same time, exercise leadership over all affairs that concern all villagers, be it economic, political, social, or civil. While ensuring the construction of party branches, we should also make efforts in the construction of villager committees, cooperatives, women's associations, and communist youth leagues, particularly cooperatives and communist youth leagues.

Third, give priority to transforming party branches that lag behind politically, which principally consists of the selection of party secretaries. For those villages that cannot find suitable candidates for the time being, we should select

cadres not engaged in production to chair the post on a part-time basis. The first question to be solved is paralysis and semiparalysis and the discovery and training of local candidates.

Fourth, make an effort to train rural active elements. We should locate a batch of good, young successors from young peasants, retired soldiers, and youth returned to villages and train and use them purposefully in the practice of socialist education. This is the basic work to strengthen and develop the fruits of socialist education, end the lax situation existing for a long time in rural areas, and organize the power of advanced elements among the peasants. During more than one year's socialist education, the whole province has dispatched 2,000 rural grass-roots cadres to form socialist education teams. This has not only strengthened the power of socialist education teams but also provided an important way to train grass-roots cadres.

Fifth, firmly protect rural grass-roots cadres who have made achievements in reform and opening up. Since reform and opening up, many grass-roots cadres have led the masses in getting rid of poverty and becoming rich, have done many good things, and achieved many things. But they also have some shortcomings or mistakes. During socialist education, we must be very careful to protect their initiative while helping them correct mistakes. We must avoid the formation of rural clans or factions. A small handful of people have taken the opportunity of socialist education to attack and retaliate against village cadres who uphold principle and have made achievement.

On protecting rural grass-roots cadres, those who retire because of old age or weak physical conditions should be properly settled. In some places they have been rewarded with honor certificates and offered pensions so that they can step down peacefully. These methods have played a significant role in stabilizing the current ranks of cadres.

Sixth, for grass-roots cadres who have made mistakes, we should correctly deal with them organizationally. This is a big question which will decide the success of socialist education and the consolidation of the results of socialist education and rural stability. Good handling of the task has great significance for not only socialist education itself but also our effort to explore ways to strengthen education, training, and administration of rural grassroots cadres under new conditions.

A survey in 12 counties during the first and second phases of socialist education showed that the number of rural grass-roots cadres who have made various mistakes is about 13.5 percent, and most of the mistakes were economic problems. The situation has something to do with the imperfect rural financial management system and relaxation of ideological education a few years ago. When handling the questions, we must take the concrete conditions at that time into consideration and mete out punishment accordingly. We should grasp the following principles. First, seek truth from facts. No matter who the person is or how serious the problem is, we must make sure that the facts are clear, evidence is convincing, our judgment is correct, and punishment is to the point. Second, uphold

the principle of "learning from past mistakes to avoid future ones and curing the sickness to save the patient" and allow more people to be educated and reduce the number of people to be punished, we must be strict in ideological education but lenient in organizational punishment; economically, the money that is owed must be returned and those who should be fined must be fined. We must mete out stern punishment to the handful of people whose mistakes and offenses are serious and to whom the masses complain about strongly. Third, we must defend the inviolability of party discipline and state laws. There must be complete procedures for every case handled and person punished and they must withstand the test of history and leave no sequelae. The handling must be done in strict accordance with the laws and disciplines and be conducted by the relevant party disciplinary and judicial departments. According to these principles, the organizational punishment for cadres who have made mistakes is appropriate and to the point in all places. Up to early June this year, the number of cadres who were punished account for 9.6 percent of the total number of erring cadres or 1.3 percent of the total number of grass-roots cadres. Most of them were subjected to disciplinary action within the party and those punished according to the law account for only 1.9 percent of the erring cadres or 0.25 percent of the total number of grass-roots cadres.

Seventh, truly grasp and solve problems and concentrate on the settlement of conspicuous problems in the countryside.

In the past, the major reason that some of the long-standing problems could not be solved was that we did not dare confront the tough with toughness, so that small problems became big, minor contradictions became long-standing ones, and partial problems became universal ones. During socialist education, people call for grasping the problems and getting right on the job and help them solve conspicuous problems. Many work teams make thorough investigations and study as soon as they enter villages to spot conspicuous problems in village and groups, take the problem as a breakthrough point, and grasp them firmly to work out a solution. Soon they win the trust of the people and make rapid breakthroughs.

The teams also concentrate on clearing up hidden accounts, accounts without clues to trace, and complicated accounts to put financial affairs in order and solve problems of disorder, gains by illegal means, bills due, and corruption. Vigorous measures are taken to make sure the problems are handled. Legal means are heeded during the rectification of public order and vigorous measures are also taken to crack down on various kinds of criminals and solve the problem of a handful of "village," "road," and "market despots" who do all kinds of evil things and harm local people. During the organization rectification, the handful of cadres who abuse power for personal gains, are corrupt, embezzle collective assets, and thus lose the trust of the people but are unwilling to correct mistakes have been severely criticized, educated, and properly handled.

In improving the double-tier management system, special attention has also been paid to the problems of occupying more marker and contract lands than allowed and

infringing upon collective land. Careful investigation and handling have been made to the above problems. Systems building has been vigorously grasped in every place on the basis of solving conspicuous problems and providing systematic guarantees for rural economic development and long-term stability. People commented by saying, "The work teams coming down this time have real courage and dare to confront toughness and solve problems without perfunctoriness. We trust them."

Eighth, we must set strict requirements to ensure quality and prevent doing things perfunctorily.

The socialist education carried out this time is a synthetic rectification of problems accumulated over the years, and the masses place high hopes on it. It will dampen the enthusiasm of the people and discredit the party's prestige if we just put on a show. Therefore, a series of important measures have been adopted since the start of socialist education. In terms of overall arrangement, it is feasible to have 15-20 percent of villages carry out socialist education at each phase. We should not cover too large an area to avoid dispersing forces resulting in "half-cooked rice." Specific arrangements, townships, and towns are regarded as a unit to carry out socialist education in force and extensively strengthen guidance. As to the strength we put into it, it is not only the quality but also the number of cadres transferred which are required. Every village should have one work team and, on average, each villagers group must have at least one cadre not engaged in production. During the socialist education, party committees at all levels and socialist education offices are required to strengthen specific guidance and help solve problems once found. This has created a prerequisite condition to ensure good handling of socialist education as a whole. To ensure the quality of socialist education, all localities attach great importance to the important link of inspection and checking before acceptance. Inspection and checking before acceptance are strictly carried out at every phase and the later period of socialist education.

Judging from the results, villages which have made gestures of doing things have done so generally for the following reasons: They are scattered too widely, making it difficult to provide guidance; they cover too extensive an area without adequate administration in selected places, the quality of team members is poor and their work style inadequate, and they have been given too many additional "hard tasks." Villages that have failed to qualify after examination for acceptance are handled according to two different situations. Work teams will not be withdrawn from villages that have not finished the tasks and make up for missing lessons, for those which just put on a show, their work power will be reorganized and they will start socialist education all over again.

Ninth, leadership must be strengthened in earnest.

The task of socialist ideological education in the countryside is arduous, involves a wide range of issues, and is closely related to policy. The key lies in strengthening leadership. For this, rural socialist education leading groups and offices have been set up from the provincial

party in prefectural, city, and county party committees. The post of heads of the leading groups are usually taken by secretaries or deputy secretaries of party committees who are in charge of rural work, with deputy heads and members of the leading groups taken separately by deputy heads of government and leading comrades of the departments of organization, propaganda, and peasants and workers of party committees, departments of personnel, civil affairs, and agriculture, as well as public security departments, communist youth leagues, and women's federations. Cadres of the provincial party committee socialist education office are selected from a dozen or so departments, including the provincial party committee, government, court, and procuratorate, and they have strong ability to coordinate with each other. This has created favorable conditions for strengthening leadership over socialist education, coordinating forces from all sides, and fighting a good battle in the all-out war of socialist education. Party committees at all levels have taken rural socialist education as a major matter crucial to the overall situation in rural work and put it into effect. An outstanding characteristic of the socialist education led by the prefectural, city, and county party committees is that people have changed the previous work style of engaging themselves only in superficial work, neglecting grass-roots work, concerning themselves with matters without doing solid work, and giving generalized orders without specific instructions. The leaders with primary responsibility and those in charge have kept themselves at the grass-roots level or in selected areas to analyze typical cases and give face-to-face instructions. In more than one year's socialist education, more than half of the 2,000-plus people belonging to the five leading bodies at the county level throughout the province—i.e., county party committee, government, people's congresses, the Chinese People's Political Consultative Conference, commission for discipline inspection—held the position of team leader and most of them stayed in villages for more than two months. To facilitate the strengthening of leadership, many counties set up socialist education offices at central townships or towns, which carried out socialist education and worked on site to give prompt guidance. The initiative by leaders at prefectural, county, and city levels to change work style is one of the basic reasons for our province to achieve remarkable results in the socialist education.

Strained Relations Between Rural Cadre, Public

92CM01564 Shanghai SHEHUI (SOCIETY)
in Chinese No 11, 21 Nov 91 pp 18-19

[Article by Wang Xujia (3769 3045 0502) "The Reasons for the Strained Relationship Between Rural Cadres and the Masses"]

[Text] The relationship between rural party cadres and the masses has remained strained in recent years. A recent poll that I took to sound out the situation in 100 villages in 20 townships in the Yiyang Region (Hunan Province), found that the relationship between party cadres and the masses is quite strained in as many as 55 percent of villages. These areas are experiencing difficulties in collecting what is owed to the higher authorities and in implementing family

planning policies, with the relationship between cadres and the masses even being severely confrontational in some cases. This strained relationship is due to the following five reasons:

1. **Exceptionally Chaotic Rural Financial Affairs:** Financial affairs are quite chaotic in certain villages. Grass-roots cadres in some villages regard collectives as their personal means of getting wealthy, to wantonly embezzle and misappropriate collective property. Regional auditors audited 2,196 units in villages throughout the region in 1989, discovering discipline violations amounting to 6.1326 million yuan, including 984,000 yuan in embezzlement and 1,7428 million yuan in misappropriated public funds, 1,493 problem units, or 68percent, 1,817 discipline violators, including 570 embezzlers of public funds, and 13 cases of large-scale embezzlement involving more than 10,000 yuan each and 19 embezzlers who embezzled an average of 18,432 yuan each. Gong Yishui (7895 5030 2037), the former accountant for the village of Taipingqian in Yanglin'an Township, Yiyang City, was found to have embezzled as much as 42,827 yuan and misappropriated 2,210 yuan. In addition, "unaccounted-for wages" of current village cadres, which we have been unable to get to the bottom of, are another case of "chaotic accounts." These "unaccounted-for wages" include family planning fines, odd amounts and "retainers" of various payments to the state, township enterprise "red packages" (cash bribes), and "tribute payments" to the masses. A poll taken by Yiyang City in 120 villages found that "unaccounted-for wages" were higher than regular wages for as many as 60percent of village cadres. Such things cause much peasant resentment.

2. **A Rampant "Torrent of Charges":** Certain departments and units take all that they can in their own interests from peasants. Polls show that over 20 departments throughout the region have set up counterpart organizations in townships, which has increased staffs, some of which are authorized and funded, while others are not. As to those that are not, the case is usually that "the subordinates (peasants) pay whenever the authorities say" so that the peasants are charged for part or all of their costs. Zhongyukou Township in Nanshan County reports that such personnel take over 140,000 yuan a year from township revenues. Some departments shift all of their expenses onto peasants. While losing 80percent of its township revenues in 1988, Yuanjiang City was still forced to pay 48,000 yuan to outfit township armed forces, with the arbitrary charges for equipping its 24 units alone being as high as 660,000 yuan a year. A 1989 poll taken by the regional management and administration center in Maluzhen, Anhui County, found that departmental charges accounted for 16.3percent of the town's 1988 per-capita income.

3. **Year After Year of "Difficulties in Selling" Agricultural Products:** While the Yiyang Region has reaped consecutive years of bumper harvests in recent years, peasants have suffered successive years of "selling difficulties," so that the increased output has not led to higher incomes. The shortage of storage capacity has made it impossible for

over 100 million jin of surplus grain a year throughout the region to be procured. The difficulties in selling not only grain, but also products, such as hemp, sugar, oranges, fish, tea, cotton, and hogs, have all severely damaged peasants' interests. The primitive trade form of barter has even appeared in certain places. While the Yiyang Region's 1990 grain yield surpassed the record that had been set in 1984, and all of its other major indicators also approached or set records, the "selling difficulties" reduced per capita income by over 40 yuan in relation to 1989. These peasants, who have been producing more but earning less, criticize the government for "begging from the peasants when it is in need, but abandoning them when it is not." The grain selling difficulties also bring unhealthy tendencies to grain procurement. Some grass-roots grain supply centers exploit peasants unscrupulously, by refusing to redeem the grain coupons brought to grain supply centers by peasants on one hand, while procuring grain at low prices through covert under-the-table connections on the other.

4. The Intricate "Clan Network": Some rural grass-roots leaders regard their localities as their private turf, with some making contacts only with those having the same surnames in their native clans, developing clan influences, practicing clan domination, "ruling arbitrarily like brutal tyrants," and riding roughshod over the peasants like bullies, so that the peasants call them "local despots" and "local village gods." In such areas, "township leaders" and "village leaders" are also "clan heads," who will do anything that is in the interests of their clan, but nothing that is not, refuse to have anything to do with the party's causes or the people's interests, and punish harshly all who offend them. Polls show that all major fights with weapons between groups of people and disturbances in rural areas are connected to, and in some cases even personally directed by, "clan heads" who "wear more than one hat." Such "clan heads" who are also grass-roots cadres, also brazenly cultivate trusted followers, while pushing aside those who dissent. One elderly party branch secretary in Taqushan Township, Taqiang County actually recommended his son who had just graduated from college to succeed him as branch secretary. The party branch secretary of Dahaitang Village on the outskirts of Yiyang City saw that the people's militia battalion commander was more capable than himself, so packed him off to a local factory as a temporary worker. As some grass-roots cadres form factions, certain of the masses naturally form factions also to resist them.

5. Oversimplified and Crude Working Methods: Some grass-roots cadres use oversimplified and crude working methods in performing certain very difficult tasks, and others even violate party discipline and national law. The most glaring problem is the following "six arbitrariness": arbitrary fining, detaining, tying up, beating, torturing, and interrogating. In a certain village in our county, 24 cases of illegal arrest occurred in one year, with 55 people being illegally tied up, detained, strung up, and beaten with police clubs, and four being crippled for life. In an attempt to save trouble, some townships simply practice "police rule," dispatching "public security forces" and "local

police" to deal with the masses whenever encountering "obstacles" to tightening up on grain funds or "snags" in family planning, with absolutely no regard for any party man line or patient and painstaking ideological work. Procuratorial organs report that a township cadre in Longtang Township, Anhua County actually mediated a civil dispute by detaining and tying up 17 people for as long as 6 days, using instruments of torture, such as police clubs and handcuffs, and employing methods, such as forcing to kneel, whipping, and parading through the streets to expose to the public. The Anhua County procuratorate received 37 written accusations against cadres for "rights violations" in January and February 1990. This "police rule" has turned the masses against the police and cadres, causing a recurrence of cases of the masses surrounding and attacking police and rural grass-roots cadres. When several policemen went to arrest a criminal in a certain township in Taqiang County in 1990, they were detained instead by local villagers. One village party branch secretary in Shagangshi Township, Nannian County was beaten up by the masses three times in one year, so was forced to resign.

We should begin to eliminate the above five reasons for the strained relationship between rural party cadres and the masses by taking the following steps:

1. Teaching Professional Ethics and Establishing the Following "Four Mentalities": 1. Honest government. As the honesty of cadre work style has a direct impact on the prestige among the masses of the individual cadre and even the party and government, honest government is a basic requirement for rural grass-roots cadres. 2. Public service. As cadres are the people's "public servants" and not their "masters," they can win the masses' trust only by placing fighting in the vanguard above enjoying privileges. 3. Success. Officials must put success in the performance of their public duty above getting wealthy, instead of "sitting around like fat Buddhist monks ringing bells all day." 4. Legality. Cadres must be paragons of virtue and learning, and take the lead in observing discipline and the law.

2. Improving Cadre Proficiency and Promoting Democratic and Scientific Decisionmaking: As cadre proficiency includes both scientific education and also ideological and political awareness, improving cadre proficiency means both training them S&T and literacy, and also imbuing them with modern mentalities in areas, such as democratic politics, commodity economy, and reform and opening up to the outside world. Only in this way can rural grass-roots cadres perform their actual jobs in a more democratic style, make more scientific decisions, and enjoy real public support and esteem.

3. Improving Our Oversight System and Establishing Restraint Forces: 1. We must strengthen our regulation and control, by providing specific provisions to regulate all rural work, including conduct standards and tactics. We must take organizational and economic disciplinary measures against units and individuals that use improper methods or violate the law and discipline. 2. We must enhance our departmental control. As grass-roots cadres

are in direct contact with the masses, and the image that they present represents that of their departments and the government, all departments must regard control of grassroots cadre indoctrination as a crucial task, and absolutely not take a laissez-faire approach to it. 3. We must improve our oversight control in areas, such as discipline inspection, supervision, auditing, and prosecution. The enforcement sector must set up a better rural oversight network, make rural oversight more standardized, systematic, and legal, and not neglect rural areas. We must rely on the broad masses, by giving them oversight jobs, and firmly investigating and prosecuting all malpractices for selfish ends and violations of law and discipline in the rural areas.

Stability, Development 'Major Issues' in 1990's

92CAM120A Beijing SHEHUXUE YANJIU
[SOCIOLOGICAL STUDIES] in Chinese
No 3, 20 Sep 91 pp 168-177

[Article by Zhang Wenhong (1728 2429 1347): "Stability and Development: Twin Issues for the 1990's"]

[Text] Both the continuously deepening reform and the development of all enterprises in the initial stage of socialism raise urgent questions about social stability and social development. How to maintain a stable social climate while keeping development on a reasonable scale is a topic of rising widespread concern to people in the theoretical community and all quarters in society. It also embodies the two major issues facing China in the 1990's. As a result, more and more people are becoming deeply interested in the issues of social stability and development. Jointly organized by the China Sociology Society, the Tianjin Academy of Social Sciences, and the Tianjin Sociology Society, the 1991 Chinese annual sociological conference was held in Tianjin from 14 to 17 May 1991. A full discussion took place revolving around the conference's theme this year: "Sociology: The Theory and Practice of Social Stability and Development." It was attended by Lei Jiqiong [7191 3381 8825], the well-known sociologist and honorary president of the China Sociology Society; Yuan Fang [5913 2455], president of the society; and Wang Hui [3769 6540], Lu Xueyi [7120 1331 3669], He Zhaofa [0149 5128 4091], Wu Duo [0702 6995], and Zheng Hangsheng [6774 2635 3932], vice presidents, as well as more than 160 delegates from the nation's 27 provinces, autonomous regions, and municipalities directly administered by the central government. More than a hundred papers were presented at the conference and more than 60 delegates addressed the gathering. Essentially, the following issues were discussed:

1. Defining the Concept of Social Stability

Thus far there has been no definition of the concept of social stability that enjoys universal agreement. Some scholars take a macro-view and define social stability as a state of normal functioning and balanced development. Internally, it means that the social organism is capable of balancing the whole with the parts as well as coordinating the various parts so that society operates in harmony in an orderly manner. Externally, it means the stability of the entire nation and society, including political stability,

economic stability, ideological stability, the stability of the social order, social structural stability, and public confidence.

Defined broadly, social stability refers to a situation wherein the government enjoys popular support, the public feels reassured, and members of society each have a job to do, where there are no serious disputes, conflicts, or crises, and where laws, morality, and conventions effectively regulate human behavior.

Among the various definitions of social stability are the following: 1) Social stability refers to a state of relative and dynamic balance in the social structure. Society operates in an orderly fashion and all social conflicts are relatively moderate. It does not mean a state of absolute balance. 2) Social stability refers to stability in social life and social relations. It does not include economic stability. 3) Social stability refers to the stability of specific institutions, such as social insurance and social welfare. Comrades who subscribe to this definition exclude from social stability the ideas of economic stability, political stability, and public confidence. This is the most narrow and specific definition of social stability. 4) Taking a social culture perspective, some scholars define social stability as the absence of sudden or radical change in society. In other words, social stability is the collection of cultural values and behavioral norms used to socialize minors, the very values and norms the older generation believes in sincerely and actually practices, which the social management system advocates and which is commonly accepted in real life. 5) Some comrades define social stability as the state of certainty of a society. By extension, it includes the certainty of social norms, the certainty of man's social behavior, particularly the behavior of the social management system; the certainty of man's social psychology; and the certainty of foreseeable future trends.

Since social stability is a new topic in sociological research in China, we cannot possibly reach a consensus on its definition in a short time. The absence of a consensus, however, does not make the various definitions above any less instructive or inspiring for our future research or practical work.

2. Classifying Social Stability

Since there are so many different definitions of social stability, it can be classified according to any one of an array of criteria. Surveying the conditions in contemporary socialist nations, some scholars have classified social stability as follows: 1) Rigid stability. A kind of negative stability that rejects reform and openness, obstinately clings to outdated dogmas, and stifles social vitality. 2) Stagnant stability. No action is taken to improve the social structure, reform the political system, or make necessary adjustments to the interest relations between men and society and other relations. People are content with relative balance and limited quantitative changes. The economy operates at a low level or languishes within a set model for a long period of time. 3) Developmental stability. What is being sought here is short-term limited

stability and reform, and opening up to the outside world, and and development.

Some comrades divide social stability into two types, agricultural civilization and industrial and commercial civilization, depending on the state of a society's social culture. Others distinguish between open social stability and closed social stability, according to a society's relations with its external environment. The former is a social stability that has enormous social energy, the latter is a stability that stifles social vitality and leads to rigidity and stagnation. Some distinguish between affluent social stability and impoverished social stability, between survival social stability and developmental social stability, depending on the objectives of social development. Yet others distinguish between group-oriented social stability and individual-oriented social stability, between democratic social stability and autocratic social stability, between hierarchical social stability and a contractual type of social stability based on equality, depending on the social structure of the society in question. Others distinguish between competitive social stability and egalitarian social stability, between raging social stability and solid social stability, depending on the laws of social operations. Yet others proceed from the perspective of social control and distinguish between internal-mechanism type of social stability and artificial control type of social stability, between self-discipline social stability and other-discipline social stability, between rule-of-man social stability and rule-of-law social stability. Yet others, using social change as a criterion, distinguish between change-oriented social stability and conservative social stability, between qualitative-change type of social stability and quantitative-change type of social stability. Proceeding from the philosophical perspective, some scholars use the movement of fundamental social conflicts and distinguish between economy-based social stability and superstructure-based social stability. The former denotes deep-seated lasting peace and stability, thanks to the intrinsic inevitability of the economic base. The latter is unsustainable over a long period of time because it depends on the powerful control of the superstructure and lacks a solid foundation.

The phantoms of classification schemes mentioned above are no more than abstractions and generalizations for use in theoretical research, similar to Max Weber's "ideal types." The kinds of social stability we see in both human history and real life are often a combination of several types. (The Chinese feudal society, for instance, was basically a mix of these types of social stability—autocratic, rule-of-man, impoverished, closed, solid, and hierarchical.) Be that as it may, these social stability ideal types are scientifically valuable and immensely significant theoretically and practically when it comes to helping us become more conscious in choosing a social stability type and gradually changing public perceptions, psychology, and climate of opinion regarding social stability so that society as a whole pays attention to, thinks about, and participates in choosing a kind of social stability.

1. Relationship Between Social Stability and Social Development

On the relations between stability and development, essentially two points of view have been put forward. The first point of view is that social stability and social development are complementary, being united to each other dialectically. Social stability is a precondition for social development; there can be no social development without a basically stable social climate. Social development, in turn, is the ultimate goal of social stability; it contributes to social stability by further consolidating its base. Comrades who hold this point of view argue that the kind of social stability we seek should be a high level of developmental stability. We are going after development amid stability, instead of stagnating and being satisfied with the status quo. Thus the goal of social stability is in "reform, seek progress, and aim for faster growth amid progress." The kind of social stability we are after is one that constantly improves itself, is full of energy and vitality, and meets the needs of reform and opening up to the outside world. Its system of social control is self-regulating and self-adjusting.

While acknowledging that social stability is a precondition for social development, comrades who subscribe to the second point of view argue that social stability is both a means and an end. When is social stability an end? When is it a means? That depends on the time and space in question. These comrades note that the relationship between social stability and social development is ever-changing. Whether we stress social stability or social development should be decided by the needs of the state and society. In the period following the Third Plenary Session of the 11th CPC Central Committee, the emphasis was on development. A string of policies was introduced to reform and open China up to the outside world, all of which were based on development. In the last few years, the policy of the CPC Central Committee and State Council is to improve the economic climate and rectify the economic order, a policy that stresses stability. Most delegates endorse the first point of view and disagree with the second with its mechanical interpretation of central policy.

4. Factors Influencing Social Stability

Reform and opening up to the outside world has had dual impact on Chinese society. Not only has it led to rapid development in social productive forces, steady gains in productivity, and a gradual improvement in the material life and spiritual life of the masses, but to a certain extent, it also has resulted in disorder and dislocations in economic life, political order, social structure, ideology, and value system. In some areas there have even been social turmoil, conflicts, and chaos. There is broad agreement on this among conference participants. They point out that to prevent and eliminate the consequences of social instability so that society can operate harmoniously and develop in a balanced way on a stable basis, we must analyze the causes of social instability, identified by the conference participants as follows:

(1) The economic root of social instability is inequitable social distribution resulting from the adjustment of interest relations and boxes that occur during reform.

Following the emergence of multiple ownership systems and a variety of operating methods, considerable changes have taken place in the distribution mechanisms of social interests. Personal incomes have been diversified. Because of imbalances between different strata, interest groups, trades, sectors, and localities, members of society do not compete on a level playing field and there are wide gaps between personal incomes. Hence the concentration of funds and manpower in the realm of circulation. The national economy got proportionately out of balance. The social work force (particularly rural surplus workers) drifted unchecked into opened coastal areas and other developed areas. The corps of intellectuals has long been unstable. The number of dropouts among university, high school, and elementary school students has soared. The dislocations in social structure and social order resulting from inequities in social distribution have become both an overt and a potential cause of social instability.

(2) Another cause of social instability is the increase in impermissible behavior, itself the result of the slackening of and mistakes and chaos in social control mechanisms as well as the corruption, incompetence, and dereliction of duty of certain leaders in charge of managing social control. The misapplication of the tools of social control occurs frequently in Chinese social life. Often, when a hard-line approach is called for, we are too soft, and vice versa. The sudden increase in impermissible behavior precisely points to the misuse of social control tools. In the political arena, a handful of party and government cadres often try to further personal interests by abusing their office and pervert justice for a bribe. In the economic arena, gambling, prostitution, drug-taking and drug-trafficking, kidnapping, and other evil phenomena have reared their ugly heads again. Such impermissible behavior has not been checked effectively and expeditiously, undermining social order.

(3) Old and new institutions and operating mechanisms coexist as the old order gives way to the new in the course of reform. Also during reform, some mistakes are made in policy and guidance. This is another important cause of social instability. In the course of reform, the old social structure, social order, institutions, and operating mechanisms break down even as their new counterparts are being established. It is inevitable, therefore, for the two sets of rules to conflict with and reject each other, creating a temporary vacuum and temporary lawlessness, with no control or behavioral standards. Herein lies a host of destabilizing elements.

(4) The widespread dissemination of foreign culture poses Chinese culture with a grim challenge. Increasingly the multiple cultures come into conflict with one another. In this situation, the established philosophy of life, world outlook, and value system of yesteryear lose their original authority and status even as the modern cultural values that have supplanted them are still vaguely understood. Members of society find themselves in an unhappy situation, with no specific goals or norms of behavior, as reflected in the surging pendulum of religion and the sharp increase in feudal superstitions in recent years. In

addition, a tiny handful of people with ulterior motives have been exploiting the temporary difficulties that have emerged in the course of reform. Taking advantage of the public's anger with corruption, they have been spreading assorted weird ideas in a deliberate attempt to create confusion, which has only made the people, already at a loss as to what to think and do, even more confused. This is an underlying ideological and cultural reason for social instability.

Citing their research on minority-inhabited areas, some comrades note that those areas have traditionally been unstable mainly because of national (or racial) prejudice, national discrimination, national barriers, and the sabotage by foreign nationalist separatist forces. Based on their studies in "old liberated areas, minority-inhabited areas, border areas, and impoverished areas," other scholars have concluded that longstanding poverty and backwardness is an important reason why there is discord between the party and the masses and between the cadres and the masses in those areas, why the local inhabitants are restless, and why the government has a bad image (which in itself is a kind of social instability). Other comrades assert that the root cause of inter-clan armed fighting and disturbances in some rural areas can be found in the rise of clanish forces and the pernicious influence of feudal clanish thinking. Yet other experts believe that current deficiencies in China's social security system explain why members of certain groups (such as those in a vulnerable position, like the physically handicapped as well as people who receive relief and care provided by administrative organs) are so restless.

5. The Mechanisms or Preconditions for Social Stability

Social development can take place only in a basically stable and highly cohesive social climate with a strong centripetal pull. Thus we must reduce social destabilizing elements to a minimum. How can we bring about social stability? In other words, what are the mechanisms or requirements for social stability? A range of opinions was offered by conference participants.

Some comrades think that social stability mechanisms include the regulating mechanism, restraining mechanism, and security mechanism, operated by the three components of social management, social control, and social work, respectively, in the larger social system. By coordinating and managing the entire social system, social management adjusts the relations between all members of society and helps society run normally. Through the law, institutions, discipline, conventions, morals, and ideological work, social control restrains the behavior of members of society, in particular keeping antirevolutionaries in check and punishing the small number of transgressors. By preventing and solving social problems, social work (including social service) protects the citizens' basic right to survival and their interests, in particular assisting the physically handicapped and those who are in a vulnerable position, thereby eliminating destabilizing factors.

On the other hand, some scholars claim that the most important component of the social stability mechanism is

an effective social security system. First of all, the system should consist of four parts: national laws and policies on social security, a social security fund, social security personnel, and social security groups. Second, eight areas of work are involved, namely, family planning, social insurance, social welfare, relief and resettlement, disaster relief, health insurance, job transfer and allocation, and the training of professional personnel. Third, the work system and methods of work in social security.

Other comrades assert that establishing a social "safety valve" mechanism, throwing open communication channels, and reconciling the interest demands of different classes, strata, and groups will contribute to easing and reducing the ever-rising causes of conflict to prevent a small number of isolated and temporary conflicts from multiplying and developing into concentrated and lasting ones, and mollify the anger of the masses in a timely way, thereby avoiding or eliminating collective anti-social behavior and putting an end to social incidents. It is worth pointing out that an annual 1,000-household questionnaire survey has been conducted in Tianjin 8 years in a row, since 1983, by the Tianjin municipal government, assisted by the Tianjin Academy of Social Sciences. It has certainly helped soothe the feelings of the public, improve the relations between the cadres and the masses, and made government policy-making more scientific and government work more open.

Yet other comrades note that a major means of bringing about social stability is to establish an advance warning system for society and formulate a control parameter for social stability and instability so as to quantify the control of the causes of social instability and make it more scientific. And then there are those who think that one of the functions of the incentive mechanism is to steer the behavior and value system of members of society in a direction consistent with what society advocates. A properly working incentive system is a prerequisite for social stability.

6. The Psychological Factor in Social Stability

Some scholars devoted their discussion to the psychology of social stability. A few experts believe that social stability and social development cannot be separated from the working of the psychological factor. A sense of calmness among the public is a key condition for social stability. In essence social stability is a question of reassuring the public. The reason is this. To achieve social control, a social organization must work through the medium of social psychology. Social norms, which a social organization uses to achieve social control, brings about social behavior amenable to social control only when they are selected and accepted by the citizens in the process of socialization and are then internalized to become the standards of social behavior.

Some scholars claim that by disrupting social psychology, the breakdown of social norms damages the social structure and undermines the social order. As they see it, the imbalances or blocks in social psychology are the internal underlying cause of any social unrest or turbulence. In an

individual, psychological blocks result in stress and anxiety, inducing all sorts of illness. So psychological blocks have an adverse effect on a person's mental and physical health. In a society, psychological blocks give rise to collective dissatisfaction, leading to anti-social group behavior, which impairs social cohesiveness and jeopardizes the stability and development of society as a whole.

Conference participants put forward the following measures to eliminate or reduce social psychological blocks and optimize the social psychological climate for reform. 1) Guide the public in understanding national affairs correctly. Mobilize them to participate in reform so as to enhance their confidence and their faith in reform and better enable them to cope with reform psychologically. 2) Do a good job in supervision and shaping public opinion. Step up ideological and political work. Establish close relations between the party and the masses and between the cadres and the masses, using such means as discussion and democratic consultation in order to calm the public. 3) Improve the people's psychological health. Establish new concepts and create a new psychological climate compatible with reform and openness. 4) Establish suitable channels where people can let off steam so that they can work and live in a relaxed and harmonious atmosphere. That way members of society can remain psychologically healthy.

7. Social Control and Social Stability

With the weakening of social control mechanisms during the transitional period specifically in mind, some conference participants discussed the relationship between social control and social stability. There is a close relationship, they point out, between the stability of social order and whether or not social control tools are properly applied. To ensure the orderliness of social activities, any social organization must exercise some kind of control over its members. And the principal function of social control is to put the social system in a state of stability and balance. The history of the PRC in its more than 40 years of existence teaches us that whenever social control is strong, society will be stable and united, production will develop in accordance with the plan, the economy will flourish, and members of society will each have a job to do and live and work in peace and contentment.

Some delegates think that we cannot simplistically and negatively think "punishment" or "repression" (that is, mandatory control or rigid control) as soon as the term social control is mentioned. Instead, we should perceive of social control comprehensively as coordination. Besides rigid control, the restraining force of morality, the persuasiveness of theories, cultural infiltration, the influence of customs, and the appeal of the arts all are effective means of social control that should not be ignored.

Accordingly, we should not oversimplify the application of means of social control or put undue emphasis on some of them. Only by combining rigid means of social control with soft ones organically, supplementing one with the other and coordinating them, can we make the most of social control in preserving social stability.

Some scholars think that it is a biased view to put the emphasis of social control on the maintenance of social stability alone while ignoring development. The reason is that the ultimate goal of social control is not social stability but to satisfy a precondition for social development. In this sense, social control has a dual role: to expedite social development as well as to preserve social stability.

8. Balancing Economic Development With Social Development and Other Issues

Conference participants held a seminar on balancing social and economic development. Some scholars think that in balanced social and economic development, economic development is the base, with a commensurate level of social development. The two promote each other. Balanced economic and social development is a process of social change whose goal is the all-around development of man. In the course of this process, social or economic development must not take place at the expense of the other. Nor can one put up barriers for the other. Social or economic development should moderate or eliminate the dislocations left over by history. In other words, economic development is a tool to solve all kinds of social problems, while social development is a process of eradicating social barriers impeding economic development and neutralizing the adverse social consequences of fast economic growth.

Some comrades argue that economic development at an unreasonably fast pace has resulted in the low realization of the effects of development, proportionate imbalances in economic development, excessive fluctuations, serious environmental pollution, and dislocations in the social organism. Accordingly, they put forward the concept of "development at a modest pace." So-called "development at a modest pace" is a development model that focuses on the effectiveness of the achievements of development and emphasizes the stability and gradualness of the development process. Basically it distinguishes itself by being thorough, economical, nationalistic, and comprehensive. Thorough development means an extraordinary degree of effectiveness in realizing the benefits of development, a deep penetration by such benefits in real life, and optimal development. Economical development means minimizing or eliminating all investment of resources, energy, and funds in the development process that is unnecessary, generates limited returns, and may even be counter-productive, thereby avoiding extravagance and waste to the greatest extent possible. Nationalistic development

means meshing national traditions and the nation's objective base (its environment, resources, history, etc.), on the one hand, with the content of modernization, on the other, so that China's development model possesses features distinct from those of the development models of other nations. Comprehensive development means coordinated and simultaneous development between the various levels and sectors of society as well as within each level or sector.

Some comrades think that the key to the modernization of China is the modernization of man. The modernization of man, in turn, depends on the improvement of his ideological and cultural caliber, quality of life, and the renewal of the objectives, mechanisms, and process of modernization. Yet others assert that human development has been stalled in the following four ways in the course of socialist reform: people's values have become what they wish them to be, they pursue only short-term interests, they have become overly keen in making comparisons, and they have become too dependent on others for their sense of competitiveness. The solution, they believe, lies in fostering a sense of reform, setting new objectives in life, inspiring people to take charge of their lives and forge ahead, and facing up to future challenges.

Conference participants also express their views on such issues as the mission of Chinese sociology in the 1990's; the current status, development, and future of Chinese sociology; the intellectual environment for theory-building in Chinese sociology; the theory and practice of Chinese reform; the restructuring and readjustment of social organizations and social structures; community building; the work enthusiasm of labor; labor attitudes and their restraining factors; interest groups in the initial stage of socialism in China; social mobility; business climate; and business culture.

The annual conference this year makes it clear that by "revolving around the 'one center and two basic points,'" the sociological community has conducted a good deal of research and many studies on the noneconomic factors that promote stable social development or that are favorable to optimal balanced economic development. Its achievements in just a few short years have been considerable." (Footnote 1) ("Sociology Must Contribute to Social Stability," in *SHEHUIXUE YANJIU*, No. 1, 1990, p. 1) As research gains in breadth and depth, Chinese sociologists will certainly continue to make even greater contributions to the theory and practice of social stability and development in China and to the enrichment and development of sociological theory with Chinese characteristics.

NATIONAL AFFAIRS, POLICY

Results of 'Double Guarantee' Policy

92CEU2484 Beijing JINGJI GUANLI (BUSINESS MANAGEMENT) in Chinese
No 12, 3 Dec 91 pp 24-27, 43

[Article by Yang Kuankuan (2799 1401 1401), edited by An L (11344 6424 2494) "On the First-Year Successes and Failures of the 'Double Guarantee' Policy"]

[Text: Since April 1990, the State Council has been testing in 234 key large- and medium-sized enterprises throughout China the "double guarantee" policy, in which the state guarantees the major external production conditions for enterprises, and enterprises guarantee the allocation of and profit and tax payments to the state on directive-plan products. While a first-year follow-up survey shows that there is a great difference between those enterprises that have tested the "double guarantee" policy and those that have not, in that the state has achieved good successes in truly helping the participating enterprises to solve certain real problems, it has also been discovered that the "double guarantee" policy has been able only to meet certain pressing enterprise needs. Thus, furthering reform should still be the way to revamp enterprises.]

1. The Successes of the "Double Guarantee" Policy

The "double guarantee" policy has produced the following major positive results:

1. It has enhanced the sense of security of "double guarantee" enterprises by guaranteeing them certain external conditions.

After the State Economic Commission was eliminated in 1988, a phenomenon of higher and lower level plans not dovetailing appeared for a time in production management work. Under the new conditions of combined planned economy and market regulation, certain other state functions also underwent changes, such as the commercialization of banking and the weakening of the reservoir functions of the commercial and material supply and marketing sectors. Under such conditions, raw material supplies and product sales depended mostly on large- and medium-sized state enterprises, and there was a general sense of loss and inability to adapt to the "lack of direction from above." In particular, certain enterprises directly subordinate to the center felt even more helpless when they ran into the problem of coordinating their needs with those of localities. Since the "double guarantee" policy began to be tested, the State Council Production Commission has taken a personal interest in the production operations of "double guarantee" enterprises. In addition to coordinating key raw material supplies and transport conditions with concerned sectors and investing special funds, it has also held many individual on-the-spot business meetings in cities, such as Dalian and Wuhan, which have helped enterprises solve specific problems, so that "double guarantee" enterprises generally had the State Council Production Commission are like "orphans who have found a mother." Statistics for the one-year period from June 1990 to June 1991 show that all of the 20 key raw material

supplies guaranteed to enterprises by the state increased sharply over the pre-"double guarantee" period, with supplies of 80 percent of varieties basically meeting or exceeding plans. Goods freight volume was 107 percent of that planned, for an increase of more than 10 percent over the pre-"double guarantee" period. Banks specially invested 13.8 billion yuan in "double guarantee" enterprise circulating funds. "Double guarantee" enterprises generally report that these guaranteed external conditions have provided strong support for their production operations.

2. It has enhanced the sense of pride and responsibility among the masses of cadres, staff members, and workers in "double guarantee" enterprises, by speeding up improvements of their business management and production operations.

Many "double guarantee" enterprises report that since being placed on the state's "double guarantee" list, all of their cadres, staff members, and workers have felt a sense of ideological and operational pride and urgency, which has been a very strong ideological prop.

"Double guarantee" enterprises have conscientiously acted in the spirit of the State Council, by strengthening their internal operations and doing all they can to develop new products and open up new markets. The bilateral coordination and cooperation of the state and enterprises has improved enterprise production operations. The first-year follow-up survey data for the 234 "double guarantee" enterprises shows overall steady production increases, continuous sales improvements, an upturn in formerly decreasing profits, and an improvement of economic performance. Their GVIO (Gross Value of Industrial Output) was 3 percent higher in 1990 than in 1989, and 4.6 percent higher again for the first half of 1991 than for the first half of 1990. Their sales income was 9.1 percent higher in 1990 than in 1989, and 16.2 percent higher again for the first half of 1991 than for the first half of 1990. Their product sales tax payments were 8 percent higher in 1990 than in 1989, and 16.6 percent higher again for the first half of 1991 than for the first half of 1990. While their realized profits were 41.9 percent lower in 1990 than in 1989, they were 1 percent higher for the first half of 1991 than for the first half of 1990, which was in clear contrast to the sharp decline in realized profits for other budgeted industrial enterprises.

3. It has basically guaranteed the production and allocation of, and profit and tax payments to the state on, state directive-plan products.

Of the state directive-plan products that "double guarantee" enterprises were responsible for in 1990 and the first half of 1991, 60 percent surpassed state centralized distribution production assignments, and 30 percent met or almost met centralized distribution production assignments. About 72 percent of products met or surpassed state contract payments, with the contract payment arrears for other products being less than in the pre-"double guarantee" period, the major cause of which was the demand side not having the money to order the goods. The

performance rate for planned profit and tax payments to the state by "double guarantee" enterprises, which was only 29.3 percent for the first half of 1990 but 97.5 percent for the whole year, reached 40.3 percent for the first half of 1991. While this was not more than half of the goal for 1991, it was 11 percent more than in the first half of 1990. While "double guarantee" enterprises did not have a faster production growth rate than industry throughout China, their growth was mainly intensive, without major fluctuations, and thus, more stable. Moreover, "double guarantee" enterprises had better production, marketing, and efficiency growth trends than all budgeted industrial enterprises.

In short, since the testing of the "double guarantee" policy has begun, while "double guarantee" enterprises have not lived completely up to expectations in some areas, such as key raw material supplies, transport conditions, and supplemental circulating funds, they have certainly been a great improvement over pre-"double guarantee" conditions, in that the anticipated results have been basically achieved in creating the conditions to help them out of their difficulties. Most "double guarantee" enterprises want to continue testing the "double guarantee" policy, while a large number of large- and medium-sized enterprises not on the "double guarantee" list are demanding to join the "double guarantee" ranks, which shows the definite advantages of the "double guarantee" policy to enterprise production operations. As to enterprise performance in guaranteeing fulfillment of state directive production plans and profit and tax payments, excluding the impact of objective factors, such as ordering units not having the money to take delivery of goods, and investments not achieving the desired results, "double guarantee" enterprises have basically guaranteed the fulfillment of product production and tax and profit payment tasks. This has played a key role in stabilizing national economic growth, state revenue, and public stability and unity.

II. The Limitations of the "Double Guarantee" Policy

Although the "double guarantee" policy has played a definite role in the growth of our industrial economy and our whole national economy, and even in stabilizing state revenue, the first-year evaluation is that its impact has been very limited, mainly in the following areas:

1. As "double guarantee" measures have been aimed mainly at the production link, they play only a stopgap role, while being powerless to solve deeper problems.

As "double guarantee" measures affect only enterprise production activities in guaranteeing either key raw material supplies and funding input or transport conditions, they can at most only help to cope with production emergencies as far as enterprises are concerned. But they generally have no impact on certain current key conflicts that limit enterprise growth, such as the market slump caused by the lack of demand, the surplus and under utilized production capability due to unchecked importing, the market chaos created by our "dual track" pricing system, and many deeper problems and conflicts, such as the unchecked and duplicate construction due to

the diversification of investors and separatist revenue and expenditure. For instance, while the No. 2 Automobile Factory had experienced many marketing difficulties and large production and sales decreases during the period of the "double tight" policy, its production and sales have both been brisk and its performance has picked up since controls were appropriately eased on investment and group purchasing power in 1990. Taking another example, as enterprises, such as Harbin's three major power plants, the Shenyang Transformer Plant, and the Sichuan Dongfang Power Plant Equipment Corporation, imported a great deal of foreign power plant equipment and complete sets of power transformation and transmission equipment, they have not been able to bring their production capabilities into full play, with utilization rates averaging about 70 percent and as low as 50 percent, so that most of them are still experiencing declining performance. And finally, the three major textile industry bureaus in Shanghai, Beijing, and Tianjin, which are large enterprises with strong technical forces and good product quality, have been operating "under capacity" and experiencing successive declines in economic performance due to the unchecked construction of textile mills in all cotton-producing provinces in recent years. Several large "double guarantee" soda ash plants have also experienced a great deal of product overstocking and declining economic performance due to surplus soda ash production capability throughout China. Input and output product price imbalances in the coal and oil recovery industries have worsened the longstanding problem of losses throughout these industries. In contrast to small nonstate-owned enterprises that produce similar products, as small state-owned "double guarantee" enterprises assume too much responsibility for state directive plans and do not receive the necessary raw material supplies, while their product prices remain strictly controlled by the state, they are unable to compete with small and nonstate-owned enterprises that have more liberal price-setting authority and use more "flexible" marketing methods. This is another major problem that the "double guarantee" policy has been unable to solve.

2. There are limitations to "double guarantee" guarantees per se.

While the state guarantees supplies of only 20 key raw materials to enterprises, enterprise production requires tens of thousands of raw materials. As far as enterprise production is concerned, while the impact of guaranteeing these 20 materials cannot be overlooked, it is actually very limited. In addition, these "double guarantee" enterprises have many cooperative relations with other enterprises, whose nonguaranteed production operations have a great impact on large enterprises, especially in the manufacturing industry. In this respect, the "double guarantee" impact is also limited. Furthermore, the 20 guaranteed raw materials cannot completely meet enterprise needs as far as quantity, quality, or variety are concerned. For instance, as to the cotton used by the textile industry, even if centralized distribution supply plans are completely fulfilled, this will still meet only about 80 percent of enterprise needs, not to speak of the inability to completely guarantee supplies due to factors, such as pricing and

quality. When regarding materials such as raw coal, rolled steel, and lumber, even if supply quantities are ensured, variety specifications and quality cannot be completely guaranteed. Guaranteed transport and funding input has a similar impact to that of guaranteed raw materials. Transport plans and actual arrangements are never the same. While plans may be guaranteed, certain difficulties certainly cannot be overcome. For instance, certain rail transport limitations are so great that shipping to one enterprise means not shipping to another, and shipping to one first means shipping to another last. Enterprise funds are still in short supply for the following reasons: 1) the real impact of "triangular debt" is the market slump and lax accounts settlement discipline; 2) since 1978, we have not ordered production or examined assets, so that the production scale has increased greatly, and neither the state or enterprises have been able to correspondingly supplement circulating funds shortages except by large-scale borrowing from banks; 3) investments have not achieved desired results. While 13.8 billion yuan in special circulating fund loans has been provided to enterprises since the "double guarantee" policy went into effect, enterprises still feel that this is "utterly inadequate."

3. Double guarantees lack binding force.

Since the "double guarantee" policy has been being tested, there have been cases of both the state being unable to guarantee according to plan supplies of raw materials to enterprises, as well as of enterprises not fulfilling state goods order contracts or profit and tax payment plans. For instance, of the 20 key raw materials guaranteed by the state to enterprises in 1990, five fulfilled 70-90 percent of planned supplies, and one less than 70 percent. Regarding enterprises, all guaranteed materials have been provided to less than 40 enterprises, while all other enterprises have experienced varying degrees of supply shortages, most enterprises have been unable to fulfill state goods order contracts, with only 134 being able to fulfill or basically fulfill them, and 69 enterprises have been unable to meet planned profit and tax payments. As there are complex causes for this, such as the "double guarantee" measures per se being unable to stipulate responsibilities or how to deal with them, neither the relevant state sectors or enterprises have fulfilled their responsibilities. As the state has not drawn up corresponding reward measures for "double guarantee" enterprises and departments that fulfill their duties, there is a lack of incentive to perform well.

III. "The Double Guarantee" Policy Must Be Combined With Furthering of Reform

In short, while the "double guarantee" measures instituted for the production operations of 234 key enterprises have been a forceful ideological support, played a positive material role, and been useful in helping to resolve current enterprise difficulties, they have fallen far short of solving long-accumulated deeper problems. Thus, in order to turn large- and medium-sized enterprises into genuine economic entities with independent decisionmaking power,

sole responsibility for losses as well as profits, and self-upgrading and development capabilities, it will be necessary to combine the testing of the "double guarantee" measures with deepening of reform, with the emphasis on intensifying reform.

First, the "double guarantee" measures must be improved in the following two areas: 1) Clear "double guarantee" plans must be drawn up promptly. Reports from "double guarantee" enterprises and the follow-up survey show that both state guarantees to enterprises of external conditions, as well as enterprise guarantees to the state of fulfillment of product contracts and profit and tax payments, are subject either to the state having no official plans, or having official plans but not presenting them to enterprises until approximately late mid-year. As this is bound to affect the implementation of the "double guarantee" policy, it is suggested that responsible "double guarantee" departments draw up "double guarantee" plans for the following year for the 234 "double guarantee" enterprises by approximately October of each year, providing all of their contents to the particular departments and enterprises, and promptly distributing them to enterprises and concerned departments for implementation. 2) A system of proficiency assessment and rewards and penalties must be drawn up to provide incentive forces. When drawing up plans, responsible departments must also draw up specific methods of dealing with fulfillment or nonfulfillment of plans, instead of simply issuing perfunctory circulars. Departments and enterprises that fulfill plans must be given both ideological and material rewards. Both subjective and objective reasons must be clarified for nonfulfillment of plans, with responsibility being investigated and affixed, and corresponding penalties being applied, for all nonfulfillment of plans due to subjective departmental or enterprise reasons. Only this can lead to better "double guarantee" results.

Second, furthering reform must be used to solve the deeper problems that the "double guarantee" policy has been unable to solve. I am making the following specific suggestions:

1. We must carry out price reform in a planned and step-by-step way, in order to gradually balance the relations between input and output in enterprise product production, develop and strengthen socialist commodity markets, and put enterprises of various sizes and ownership forms on a basis of equal competition. As a basic principle of commodity economy is exchange at equal value, input and output product value should correspond in product production. Before we began our reforms, we practiced a product economy, not paying attention to the role of the law of value, which caused us much suffering. While we have understood this since we began reform, making much progress in acting in accordance with the law of value and rationalizing product prices, we are still far from having established a sound and mature socialist planned commodity economy. For instance, the overall losses in our coal and oil industries, the disparity between our directive plan products and directive plan raw material supplies, and the wide price gap between directive plan

products and nondirective plan products, are all specific manifestations of our lack of conformity to the law of value. While we naturally cannot change such conditions overnight, the current market slump is presenting us with a very good opportunity to "try" price reform. As to our common consumer goods, since state-owned commerce, collective commerce, and self-employed vendor commodity prices are basically about the same, and almost none of these commodities have big price differences or depend on supply by voucher, we could actually put them all onto one track and subject them to uniform market regulation. Furthermore, our dual prices are about the same for a large part of our capital goods, such as nonferrous metal, rolled steel, ferroalloys, cement, soda ash, electric wires and cables, motor vehicles, and tractors, so that we could also put them all onto one track. We could use the method of "quick short steps," making constant small adjustments to put certain products with large dual-price differences such as coal, oil, power, and cotton, gradually onto one track. In this way, we could gradually, over two or three years, establish a uniform and perfected socialist commodity market, put enterprises on a level field of competition, and achieve elimination through competition.

2. A socialist planned commodity economy means that plans must be enforced strictly. Whether we have already established a uniform commodity economy or not, national economic planning is essential. Under our "dual track" pricing system, planned economy guarantees quality, quantity, and price while, in a well developed commodity economy, planned economy guarantees quality and quantity but not price, i.e., prices operate according to market forces. In any case, plans must be enforced strictly, with personal responsibility being affixed for both nonfulfillment of plans and plan formulation errors. We must change our ideas about fulfillment of plans. Rather than have overfulfillment, we must realize that underfulfillment as well as overfulfillment both have negative results. The overheated economy of a few years ago, i.e., overfulfillment of plans, also endangered the development of our national economy.

China's planning is now rather seriously divorced from reality. For instance, investment plans having quotas, but not funding, sources means that funds do not achieve the desired results, diversification of investors leads to duplicate and unchecked construction, production plans leaning too far toward high targets and high rates lowers performance, goods order plans not conforming strictly to contracts causes product overstocking and loan arrears, and improper foreign trade planning leads to imports crowding out domestic products and export products "killing each other off." Only by insisting on strict enforcement of plans can we change such chaos to achieve uniformity without stifling and vitality without chaos. In addition, until our prices have been put completely "onto a single track," the existing state directive plans for enterprises should be retained as a means of economic stabilization. Instead of simply saying that "directive planning should be reduced," we should say that "directive plan products and directive plan raw material supplies should be balanced." This

would arouse more large- and medium-sized enterprises to take the initiative in assuming responsibility for state directive plans.

3. Industrial production must break free from departmental limitations by practicing classified trade management. This is a longstanding issue that has been debated for many years. While many "double guarantee" enterprises note that classified trade management is better than departmental management in all areas, such as optimization of industrial structure, development of economies of scale, and enhancement of planning control, as classified trade management affects the interests of certain sectors, there is much resistance to starting it. The state policy-making sector should resolve to act in the overall interests of the nation, by weakening departmental authority and strengthening industrial authority. In particular, it should break free from its former departmental limitations, change its current method of trade classification based on general product production categories, and practice classification by trade. It should proceed from trade centralization to draw up classified product production plans, development plans, and foreign trade plans, in order to help organize and manage production and regulate and control markets. In particular, once certain staple products that are in long supply, such as soda ash and ferro alloys, are put under centralized trade management during the market slump, they can be ranked according to product quality in order to determine priority targets for development and upgrading. This will help to both stabilize product markets along the lines of OPEC methods, such as matched quota production or minimum duty-free prices, and also to strictly control production of, and prevent further increases in production capability for, similar products.

4. We must take real steps to lighten enterprise burdens. Many "double guarantee" enterprises are shouldering heavier burdens than ordinary enterprises. This involves primarily the problem of social burdens, which has never been solved, second, it puts great pressure on the areas of retired staff member and worker pensions and employed staff member and worker housing. In addition, too many things, such as meetings, training, inspections, proficiency assessments, comparative appraisals, inspection tours, and report forms, sap the energies of enterprise managers and increase nonproductive business expenses. "Double guarantee" enterprises are calling for no further formulation of new policies or adoption of new measures, but rather simply conscientious enforcement of the "Enterprise Law," truly returning the authority to enterprises that they deserve, and allowing enterprises to operate on their own initiative and legally. This could lighten many of their burdens.

5. We must make good use of our tax rate leverage. Some "double guarantee" enterprises report that while it was rational to raise sales tax rates for certain fast-selling products during the 1988 industrial adjustments, when many products were selling well and prices had increased sharply, it is obviously irrational to keep the same tax rates as when prices were high, since markets have slumped,

many products are selling poorly, and prices have fallen repeatedly. It is suggested that the state use its "tax rate" leverage in line with market changes, by raising or lowering rates where appropriate, in order to better conform to the laws of economic development. In addition, while revamping large- and medium-sized enterprises, tax policy should favor large- and medium-sized enterprises, it actually does just the opposite. Many small enterprises, especially new ones, bear small burdens, by enjoying preferential tax rates of three-year tax exemptions and a number of years of 50 percent reductions, and then changing their names and enjoying the same treatment again. Unless this is changed, it will be very hard to avoid the situation of "little fish eating big fish, so that little fish live and big fish die." The state should revise its tax rates and policies based on industrial policy and average profit margins. Moreover, as Chinese industry has already grown considerably, we should consider eliminating the preferential tax policies for new enterprises.

Weakening Factory Director Responsibility

*Chen Lixiang, Beijing JINGJI YU GUANLI YANJIU
RESEARCH ON ECONOMICS AND
MANAGEMENT* in Chinese No 6, 8 Dec 91 pp 20-23

[Article by Peng Guangrong (1756 1684 2837): "Careful Thoughts on the Signs of a Weakening Factory Director Responsibility System"]

[Text] Recently, a piece of news of great concern has come out of the enterprise circles. The factory director responsibility system is showing signs of weakening. This is indicated mainly by the factory directors' eroding central role in enterprises. In a handful of localities, some comrades have suggested that the enterprise leadership system should go back to the party committee-led factory director responsibility system. How to uphold and perfect the factory director responsibility system has become an important issue in the thorough restructuring of the urban economic system and in the effort to enliven enterprises.

The factory director responsibility system is a major part of the reform of the enterprise leadership system. Its implementation has run into problems on several occasions. The "Enterprise Law" clearly states, and Jiang Zemin also pointed out on the 70th anniversary of the founding of the CPC, that all factories and enterprises must uphold and perfect the factory director responsibility system. Today, this reform seems to have reached an impasse. Why? This author has made some studies and has carefully thought about the issue and has concluded that as an important component of the restructuring of the urban economic system, it is very difficult for the factory director responsibility system to produce results if it has to go it alone and be an isolated force. We must add a full measure of other reforms to complement it and solve the other deep-seated problems related to it.

This article puts forward some tentative ideas on the causes and the cures of the weakening factory director responsibility system. By casting brick to attract jade, I am hoping to collect opinions from and explore the issue with

the many plant managers, theoreticians, and leading comrades at all levels who are concerned about enterprises.

Fulfilling responsibilities is at the heart of the factory director responsibility system. Yet, to whom should the factory director be held responsible? To date, this is still a relatively hazy concept. For reform, we must establish a new property rights system, so that the factory directors can effectively be held responsible to the property owners and to the staff and workers.

The factory director responsibility system has been in effect for five to six years. Almost all enterprises have made the transition from the party committee-led factory director responsibility system to the regular factory director responsibility system. Recently, we asked some factory directors, "to whom is a factory director ultimately responsible?" The answers fall into five groups. One, he is responsible to the department in charge of industries, because the department in charge has the power to hire and fire the factory director, and so the department is the factory director's "boss." Two, he is responsible to whom-ever he signs the contract with. This means different things in different localities. It may mean the local government, the financial department, or the department in charge of industries that hands out contracts. Three, he is responsible to the state, the collective, and the workers. Specifically this means paying taxes to the state, making sure that the collective does not collapse, and making sure that the workers are paid their wages. Four, he is responsible to the consumers. This suggests that so long as the consumers are satisfied with the enterprise's products, it is doing okay, and that is the factory director's responsibility. Five, he is responsible to the property owners, to the person who owns the enterprise's assets, and this is but "moral responsibility"; there is real responsibility. All the above statements are correct. But the biggest problem is that the factory director responsibility system has no political or economic responsibility. If the enterprise is not doing well, at most the factory director is embarrassed, or he receives either no bonus or a smaller bonus. This shows that there is no clear definition or requirement as to whom the factory director is responsible. Failing to answer this question, the factory director responsibility system will surely be weakened.

To whom is the factory director responsible? This "whom" has many attributes and covers a broad area, and we must find the element which has direct, not indirect, and the most intimate ties to the factory director's and the enterprise's interests. In my opinion, we should look at it from two different perspectives. On the one hand is the property rights issue. Whoever has the property rights, of course, should be responsible for the properties. On the other hand, there is the issue of the relationship between the factory director and the workers. The workers are the creators of wealth. The factory director, being enterprise's legal representative, must be responsible to the staff and workers. This is mandated by the nature of socialism. Meanwhile these two aspects are related to and consistent with each other.

Clearly, perfecting the factory director responsibility system and reform of the property rights system must proceed simultaneously. The general idea is to establish a dual ownership structure consisting of the state's ultimate ownership rights in the assets and enterprises' economic ownership rights in the assets as legal persons. Ultimate ownership rights do not include the right to intervene directly in the manager's economic activities but do entitle the bearer to the profit generated by the assets while requiring him to share certain economic responsibilities. Enterprises have complete rights to possess, govern the use, and dispose of the assets they utilize. This kind of derived ownership rights does not change the nature of the ownership system in investments. As legal persons, the factory directors take risks with enterprises' assets and are forced to fulfill their responsibilities. In this way, the relationship between enterprises and the state is no longer one of administrative subordination but becomes a new kind of pure economic relationship. The first person a factory director is held responsible legally, economically, and politically to is the property owner. His responsibilities include those to the state which has ultimate ownership rights and to the enterprise which has economic ownership rights.

Promoting the factory director responsibility system is an objective requirement if we want to develop the commodity economy. Yet, the current contract system still bears the marks of the product economy, and as a result, the factory directors are still short-sighted and dependent on the government. For reform, we should create the conditions for perfecting the market parameter-regulated contract system.

The terms of the factory director responsibility system and the tenure-based management-by-objective responsibility system practiced in the absolute majority of the enterprises are concurrent with the contract term. The contract system utilizes the contract to confirm enterprises' role as economic entities. This no doubt is a big improvement. Under today's situation where two economic systems exist side by side, the contract system is a natural choice at this stage of enterprise reform. But practice has proven that its existence has produced some inevitable conflicts. The current contract system is the government's way of "managing enterprises by norm." Through "one-on-one" negotiations and assessment, this method of contracting with indirect regulation by administrative measures still bears the marks of the product economy. The contracted norms have little consideration for market factors, and in order to guarantee its financial revenues, the government is setting higher quotas for enterprises each year, exacerbating the short-sighted behaviors of the factory directors and managers who are enterprises' legal representatives. In order to fulfill the quota, the latter have to drive their equipment and their strength to the ground at the expense of enterprises' long-term quality. This method of contracting renders the factory directors very dependent on the government. The contract terms are the determining factors in enterprises' profitability, and so the factory directors must keep their eyes on the mayor rather than on the market and must ask the government to hand down more power and yield more profit in order to increase enterprise profit. As a result,

enterprises are always trying to outdo each other, and the government is constantly faced with the problem of enterprises demanding readjustments of the management terms.

The goal of restructuring of the economic system is to develop a planned commodity economy, and promoting the factory director responsibility system is what meets the needs of the development of the commodity economy. But the contract system which bears the marks of the product economy is one of the reasons why the factory director responsibility system has not been more successful. To perfect the factory director responsibility system, we must complement it with broader reforms in other areas and make a gradual transition from the current indirect-regulation-by-administrative-measures method of contracting to a market-parameter-regulated method of contracting while upholding the objective of the restructuring of the economic system. In other words, we must set an approximate growth rate for enterprises based on the industrial policy and the changing market conditions and turn enterprises' "rigid contract base" into a "flexible contract base" and gradually make the contract norms more elastic and the contract terms more standardized. A "flexible contract base" requires a "lively market." We not only must develop the markets for factors of production such as capital goods, labor force, capital, and real estate, but we must also develop the contract market, including a market for the transfer of property rights, a market for contract bids, and an entrepreneur's market. The better developed the market and the more reasonable the parameters, the easier it is for the government to ascertain the market parameters in order to regulate the market and guide enterprises. In this way, the factory directors will be able to show off their talents in the arena of the commodity economy.

We cannot create a market parameter-regulated contract system overnight. In view of today's method of contracting, we should make the contract term somewhat longer, and in evaluating the contracts, we should take into consideration enterprises' technological reserve, the amount of personnel training, market shares, percentage of fund accumulation they own, and their overall cultural makeup and so on. We can also promote a system where a contracting enterprise's entire staff puts up its own properties as collateral, so as to enhance the sense of responsibility toward enterprises' assets, and we should use legal means to stipulate the legal consequences of the factory director's short-sighted behavior.

Integrating responsibilities, rights, and privileges is a necessary condition in perfecting the factory director responsibility system. Yet, the state's recentralization and distortion of enterprises' autonomous rights has made it difficult for the factory directors to move forward and be responsible. For reform, we must cultivate a stronger legal concept and establish a law enforcement and supervision organ to make sure that the factory directors' powers stay in the hands of the factory directors.

According to a ZHONGGUO JIDIAN BAO report dated 14 July 1991, Hunan Province's Commission on Restructuring the Economic System broke down the autonomous powers given to enterprises by the "Enterprise Law" and the pertinent regulations enacted by the State Council to enliven enterprises into 43 parts, and upon carefully examining 213 enterprises, they found that 26 parts, or 60.5 percent, were still in the hands of enterprises, and eight, or 18.6 percent, had been taken away by the higher authorities one by one. These included the right to determine the installation of departments, the right to readjust plans, the right to engage in inter-industrial operations, the right to recommend deputy administrative plant managers, the right to recruit talents, the right to negotiate worker transfers, the right to select the best qualified workers, and the right to reject assigned workers. In addition, nine parts, or 20.9 percent, had never been handed down. These include the right of enterprises to refuse unreasonable apportionment, the right to choose the best suppliers for goods and materials under centralized allocation, the right to set up joint operations, the right to withdraw from the parent company, and the right to choose the most suitable partner in a cooperative project.

The above situations are typical in some localities. The power of the factory director as stipulated in the "Enterprise Law" has been distorted several times during the control-decontrol-control process. There are three reasons why this has happened: One, the policies promulgated by the state are often in conflict with the clauses in the "Enterprise Law." Two, in order to protect local and departmental interests, when local governments and departments draw up policies and laws and regulations that contradict the "Enterprise Law," they would emphasize practicality and use local and departmental policies as the standard. This is a sign of a weak legal concept. Three, there is insufficient confidence in the factory director. Using the need to supervise and protect the factory directors as excuse, some powers of the factory directors have been recentralized. Many factory directors say that upholding the factory director responsibility system is preconditioned upon the integration of responsibility, rights, and privileges. They ask that if the power bestowed by the state is taken away, how can they be responsible for production and operation and for enlivening enterprises? They say that they do not need more power but it is imperative that the powers bestowed upon them by the "Enterprise Law" be promptly restored, so that they can put their rights in manpower, funds, and resources together and utilize them effectively.

No doubt what the factory directors are saying is correct. Without any real power, who would want to be a factory director? In recent years, recentralization and distortion of the entrepreneurs' powers have seriously sapped enthusiasm of the factory directors and enterprises, hampering the productive forces' development. To solve this problem, first, governments at all levels and the relevant departments must separate government from enterprises and acquire a stronger legal concept. They must make doing everything according to the law the government's way of doing things. They must enforce the law strictly and must

not make excuses to use power instead of the law or intercept enterprises' right to make their own decisions. Second, governments at above-county level must create a legislative bureau and a supervisory bureau to carry out the duties of checking and monitoring the government's law enforcement efforts. All government-promulgated policies that contradict the "Enterprise Law" must yield to the "Enterprise Law." Moreover, if a government organ has made a decision that infringes upon enterprises' autonomous rights, the factory directors have the right to petition that organ to rescind the decision. In accordance with the Enterprise Law, the organ receiving such a petition is obligated to reconsider and decide whether to rescind the decision or not. If the factory directors still disagree with the decision not to rescind the decision, they have the right to appeal to a higher authority or to the government supervisory department. Of course, the factory directors must also be taught to exercise their powers properly and to willingly accept the comprehensive supervision and guidance of the department in charge of industries, the audit and supervisory departments, and the party discipline inspection department. The mechanisms for limiting the factory directors' powers should be further improved.

The factory directors should do what factory directors do. This is the basic intent of the factory director responsibility system. Yet, the mistaken roles of "mayor as factory director and factory director as mayor" have sapped much of the factory directors' energy needed to manage production and operation. For reform, we should take out the social services from enterprises which have become "mini-societies" and let the factory directors fulfill their responsibilities.

All along, the phenomenon of "enterprises running society" has plagued enterprises' development. It has been one of the most sticky problem facing the factory directors and also an important reason why the factory director responsibility system has not been very successful. Enterprises are operating a complete line of services and public utilities such as dormitories, canteens, hospitals, and schools and are taking over society's responsibilities. They have set up individual departments to take care of the workers—from birth, aging, illness, to death and from food, clothing, shelter, to transportation—and have created a complete service contingent. The enterprise workers' social security and welfare services are provided by the government via enterprises which have become "mini-societies." The workers also treat the welfare and services provided by enterprises as welfare benefits they are entitled to, or as their natural rights. Yet, all the complications and conflicts embedded in these "mini-societies" must be resolved by the factory directors. Despite the division of labor among the leaders of the party, the government, and the workers' union inside enterprises, all unresolved problems must still be decided by the factory directors. This has become the norm. The "Enterprise Law" stipulates that the factory director's primary duty is to organize commodity production and management. If he has to take care of the "mini-society" as well, it inevitably will dissipate his energy. The city government's main function should be to focus on public utilities and social services. The mayor

should concentrate his effort on such matters as transportation, housing, healthcare, childcare, food, sanitation and other social issues that concern the workers. But the mayors are taking over the factory director's jobs. That is, they are busy over such things as enterprise funding, raw material supply, equipment, energy supply, and production management and so on. The mistaken roles of "mayor as factory director and factory director as mayor" not only undermine the development of the city's public utilities and social services but also hamper the formation of enterprise production and operation standards.

To uphold and perfect the factory director responsibility system is to establish the factory director's central role in production and operation and make sure that he focuses his energy on carrying out the duties stipulated by the "Enterprise Law." The factory directors are speaking out louder and louder, and it has become imperative that we explore and resolve the sharp conflicts as a result of "enterprises running society." However, this is a very difficult piece of reform. In my opinion, first, the government departments must put more emphasis on and build a stronger public utility and service industry, and this means vigorously developing the tertiary industry. In most localities, the tertiary industry plays a very small role in the overall industrial structure. This not only hampers comprehensive economic development but also forces enterprises to become even more involved with the "mini-societies." With the development of the tertiary industry, we can ease the conflict of "enterprises running society." Second, this reform has to be a gradual process. Enterprises can begin by taking the management organs of the "mini-societies" out of the operation and production systems and provide independent guidance, independent management, independent accounting, and independent allocation, so as to create the conditions for those organs' eventual complete independence. Third, we should turn the centralized planning of workers' pension into an even more socialized process and change the long-established social security system where the workers' employment and their livelihood are all "taken care of" by enterprises. At the same time, we must accelerate the legislative pace to gradually set up an insurance system with a socialized management format to resolve enterprise workers' social security problems once and for all. In addition, we must use legal means to curb the unreasonable apportionments imposed on enterprises by all quarters of society.

To promote the factory director responsibility system requires the factory directors to go all out and manage enterprises properly. Yet, with three carriages side by side, which is the "heart" and which is the "core" is still a tangled matter, and it is difficult to single out the factory director's central role. For reform, we must emphasize that each enterprise can only have one hub, and the most ideal situation is to make the factory director the party committee secretary too and let the others revolve around this hub.

In many enterprises, the organs of the party committee, the administrative group, and the workers' union have become smaller and smaller as more and more workers are

being released, and each organ is stressing its own importance. The party committee and the workers' union say that they support the factory director's work, but they are also constantly trying to seize some power and utilize this power to cultivate different images of their own. Having said that the factory director is at the heart of enterprise production and operation and the party committee is the core of political leadership, if the factory director gets along well with the secretary personally, then there will be fewer conflicts between the "heart" and the "core", otherwise, on certain matters, one may emphasize the "heart" and demand subordination to the "heart" and the other may use "core" as reason and maintain that the party's leadership comes first. This will heighten the conflict between party and government and undermine production and management. In particular, enterprise decision-making has formed a long chain. From the factory director making a proposal to informing the party committee to notifying the workers' union or getting it ratified by the workers' congress. Most things take too long to get accomplished, and there is much waste on the inside.

If we look up Xinhua Cidian, we will find that heart refers to the most important part of something and core also means heart and refers to the important part of the relationship between matters. Thus, there is little difference in meaning between heart and core. Granted, heart and core refer to two different systems within an enterprise. If both sides put the party's affairs first and not worry about how much power each has and work together to meet the party's and the government's different needs and turn "two hearts" into one, then there will not be too many conflicts either. In order to avoid and resolve the conflicts produced by having "two hearts," this author suggests that an enterprise is like a machine, it can only have one hub (or one heart or core,) and since enterprises are economic organizations, this hub should be a person, and this person should be the factory director cum party committee secretary. This not only facilitates the creation of a highly centralized system but also forms a strong and effective command, which not only meets the needs of socialized great production but also helps us focus on the two civilizations at the same time, and it guarantees enterprises' socialist orientation. From this hub we can branch out into two systems. One should be manned by a party committee deputy secretary who focuses on the party committee's affairs and sets up a small but sharp party affairs work group. The other should be a group of experts consisting of "one director and three chiefs": Under the leadership of the factory director, the chief engineer, the chief accountant, and the chief economist will be responsible for production technology, economic accounting, and business management, respectively. In addition, we must integrate the factory director responsibility system with democratic management in an effective way and give full play to the factory management committee which the workers take part in.

It should be pointed out that it is important to select the right person for the position as factory director and secretary. We must consider the person's professional standard as well as political quality, his educational standard as well

as exceptional organizational skills and ability to work with others. This "hub" should project the image of an entrepreneur but also be able to inspire and galvanize, so that the party, the administrative group, and the workers' union within the enterprise will willingly revolve around the hub. The factory director cum secretary will have many duties and many responsibilities, and therefore he should be paid more than anybody else in the enterprise (with the exception of those with unique contributions). The leadership should not eat out of the big pot; there should be some pay differences to reflect different work. This would make the "hub" stand out even more.

Restructuring Official on Accelerating Reform

92CE00054 *Chongqing TITAI AINXI* /SYSTEM
REFORM NEWS/ in Chinese No 24, 20 Dec 91 pp 4-7

[Article by Wang Shiyuan (3769 0099 0337), secretary general of the State Restructuring of the Economic System Commission. "We Must Emphasize Priorities and Grasp Key Links To Speed Up Our Pace of Reform While Developing Steadily—A Review of Our 1991 Reforms and 1992 Reform Prospects"]

[Text]

1

I would like to point out that 1991 has been a year of learning through practice, which should enable us to write a rich chapter in the history of China's reform and opening up to the outside world.

This is because 1991 has been a year of new beginnings in a crucial period of socialist modernization, which has followed on the heels of the huge reform and opening successes that China achieved in the 1980's. As it has also been a year in which we have basically achieved our major economic improvement and rectification objectives, it can be regarded as the end of a phase in our 12 years of reform and opening up to the outside world, in that our national economy has gotten onto a path of normal growth, and our stable economic climate has paved the way for accelerated reform. It has been a year in which reform has been speeded up in pace, strengthened in degree, and increased in share, and in which we have gained an increasing momentum in opening up to the outside world.

An even more important reform and opening success of 1991 is that it has provided us with a blueprint for economic reform in the 1990's. Based on the "Proposal" of the Seventh Plenary Session of the 13th CPC Central Committee, the Fourth Session of the Seventh NPC approved the "PRC Program for National Economic and Social Development During the 10-Year Program and the Eighth Five-Year Plan." This important historical document has fully affirmed our past decade of successes and experiences, clarified our struggle objectives, principles, and policies for the next decade, and set clear plans and measures for increased economic reform and increased opening up to the outside world, which will be of key significance to the realization of China's second strategic national economic and social development objectives. Along with this, the State Restructuring of the Economic System Commission has drawn up the "Program for

Economic Reform During the 10-Year Program and the Eighth Five-Year Plan" which, with the approval of the State Council, has been printed and distributed throughout China as an accessory document to the national "Program for the 10-Year Program and the Eighth Five-Year Plan." This document sums up our huge reform successes and basic reform experiences of the 1980's, and details our reform objectives, guiding principles, and key tasks for the 1990's, which makes it a guiding document for our next decade of reform. These important documents will have the historical impact of continuously bearing out our future practice, as well as having the immediate significance of helping to bring about a reform and opening macroclimate, which shows the new aspects of our reform and opening in 1991.

Our dozen years of reform and opening practice have fully shown that a key link of our overall economic reform is incorporating enterprises, particularly large- and medium-sized state-owned ones. It can be said that the whole party and the whole country have gained a deeper understanding of this problem and taken more forceful steps to solve it in 1991. At the beginning of 1991, the second round of state-owned enterprise contracting was successfully put into place and, based on a summary of the first round of contract experiences, all areas have taken certain steps to improve the new round of contracts. These involve mainly the widespread establishment of a complete and comprehensive contract target system, including mostly profit-based economic performance targets, stamina development targets based mostly on technological upgrading, and management targets based mostly on improving enterprise quality. The contract bases have been set more scientifically and rationally, which has created a graded and classified optional method of meeting targets, and raised contract bases somewhat throughout China. As we have achieved clear improvement and rectification successes, and our national economy has recovered its normal growth momentum, improving the economic performance and enhancing the vitality of our large- and medium-sized state-owned enterprises has become an increasingly glaring issue. So the State Council has proposed 12 measures to revamp large- and medium-sized state-owned enterprises, by making efforts in the two areas of improving the external climate for enterprises and improving reform within enterprises, of which measures many have already taken effect, and others are in the process of being implemented. The three key enterprise reform pilot projects are in the midst of summing up experiences and improving steadily. In the shareholding system pilot project in issuing stocks to the public in the two cities of Shanghai and Shenzhen, the leadership has been enhanced, management has been improved, and plans have been made to increase the number of enterprises issuing stocks. All areas are continuing to experiment with other similar shareholding systems, and efforts are being made to standardize them. As to the 1,900 enterprises throughout China that are taking part in the "separation of taxes from profits" pilot project, the state has clarified certain policies, so that the pilot project is being steadily improved in method and expanded in scope. As to the enterprise group pilot project

set up by the State Council, in which 55 mostly large production enterprises are taking part, relevant policies and management methods have been drawn up, so that some groups are being replenished and improved on existing bases, while others are being reorganized. All areas have taken certain steps to speed up and rationalize the circulation of key production factors, which is moving forward in various forms, such as enterprise contracting of other enterprises, enterprise mergers, and enterprise property rights transactions, so that new advances are being made in adjusting enterprise organizational structures.

As circulation is a key link in social reproduction, speeding it up will have great impact. We have taken a key step in foreign trade reform in 1991, by changing from decades of centralized responsibility for profits and losses by state revenue to a new type of foreign trade management, in which subsidies are eliminated and all foreign trade enterprises have independent decisionmaking power and are responsible for their own profits or losses, which has vigorously improved our foreign trade economic performance. In order to speed up their commercial and material circulation, many provinces and cities have drawn up specific policies and measures, so that circulation reform is being steadily improved. As Chongqing has achieved tangible results in experimenting with "four deregulations," i.e., management, pricing, distribution, and hiring, for state-owned commercial enterprises, many places throughout China are now learning from and applying Chongqing's experience. Tianjin has reformed its urban food management, by using an operating method that separates policy operations from regular ones and profits from losses, which has achieved impressive economic and social results and invigorated food enterprises, so that Tianjin's experiences are now being popularized throughout China. There have been all sorts of new market developments, with the appearance of a number of capital goods trade and accessory centers, and studies of socialized material circulation methods. Following the establishment of a central wholesale food market in Zhengzhou in 1990, places, such as Anhui, Jiangxi, Guolin, Hunan, and Hubei, have set up regional food markets, developing from spot transactions to futures trading. Technology markets have reached maturity in all areas throughout China, with the technology commodity trade turnover growing very fast, and technical advances having a clear driving impact on the field of production. There have also been varying degrees of development in real estate and economic information markets. In money markets especially, which are the most important key production factor market, long-term money markets have made particularly steady advances, with all types of negotiable securities and stock market trading, turnover having increased very quickly. A quarter of the national treasury bonds issued in 1991 were sold by banks or non-banking financial institutions, which has changed the past method of level-by-level assignment by executive order, and achieved very good results.

Our remarkable improvement and rectification successes have created a good external climate for accelerated price reform. In 1991, we have readjusted the prices of basic products, such as rail transport, crude oil, and rolled steel,

also making progress in changing the distorted price relations between basic products and manufactured goods. It should be specially noted that the readjustment in May 1991 of the fixed selling prices for food and cooking oil in the cities, which had never been changed in the last 25 years, was unprecedented in scope. The attention paid to this by leading party and government leaders at all levels, the reliable plans that were made, and the efficient propaganda that was organized, enabled this price readjustment to proceed smoothly so that our food and cooking oil market stability was consistently well-received both in China and abroad. Food price reform plans took effect smoothly in the three provinces of Guangdong, Hainan, and Fujian, achieving synchronized procurement and marketing prices. These great advances in food and oil price reform have laid a solid foundation for overall reform of our food and oil procurement and marketing system, as well as for a thorough solution to the problem of procurement and marketing prices being out of line with each other. In 1991, many provinces and cities have also linked up planning, materials, and price reforms, which has further reduced the scope of state-plan price control, deregulated the prices of more products, and enhanced the regulatory impact of market forces.

A major feature of our 1991 reforms was that we began to form a good macroclimate for housing reform throughout China. Since the State Council Leading Group on Housing Reform was reorganized and enhanced, it has held a housing reform news release conference and a second housing reform working conference, and has become a powerful driving force in housing reform throughout China. Shanghai, which is the biggest city in China and suffers from the greatest housing shortage, put a housing reform plan into effect in May 1991, which has been proceeding smoothly for some months, receiving widespread support from residents, and playing a large role in speeding up housing reform throughout China. In close coordination with increased enterprise reform, social security reforms have been widely launched in all places throughout China, with the scope of such experiments expanding steadily. The reform pilot projects and studies in both rural and urban areas, both state-owned and collective, individual industrial-commercial, and foreign-invested enterprises, both old-age and unemployment insurance, as well as both overall social planning and the establishment of various types of old-age pensions, unemployment funds, and medical insurance, have added momentum to the overall social security reform. In order to invigorate large- and medium-sized state-owned enterprises, many places have created more effective enterprise hiring and distribution methods, and with more enterprises using methods such as joint appointments, personnel contracting, and recruitment, hiring, and firing of workers. Premised on state control of payroll increases, more and more enterprises are paying attention to setting more flexible enterprise distribution methods, widening income distribution gaps, and striving to resolve distribution equalitarianism. The Distribution Reform Commission established by the State Council will study areas such as state organ and institution wage reform, enterprise

distribution reform, and resolution of unfair social distribution, drawing up policies and proposing measures to vigorously promote distribution reform.

Some progress has also been made in 1991 in the area of establishing a comprehensive macroeconomic regulation and control system that uses economic, legal, and administrative measures. After readjusting interest rates four times and exchange rates twice in 1989 and 1990, we have lowered savings and loan interest rates again in 1991, and used a fine-tuning overall-floating method for exchange rates, which have effectively supported the mechanism changeover to invigorate domestic and foreign trade enterprises. The State Council's decision to lower the state-owned enterprise income tax rate from 55 percent to 33 percent, in order to achieve a fair tax burden for all economic components, has created a good climate for fair competition among all types of enterprises, as well as providing the necessary prerequisites for expanding the scope of pilot projects in "tax and profit separation, with after-tax loan repayment," and for further standardizing the economic relations between the state and enterprises. In 1991, we also instituted a fixed assets investment orientation regulatory tax to replace the former construction tax, and officially issued two foreign-invested enterprise income tax laws, which further improved our laws and regulations concerning foreign nationals. In order to pave the way for central and local tax separation by the end of the 1990's, the concerned departments drew up in 1991 plans for pilot projects in tax separation and guaranteed payments, which are ready to be tried out in five provinces and three cities. This has been an important revenue reform measure taken in 1991. Plans to continue to appropriately reduce directive planning, reform investment examination, approval, and control methods, better implement industrial policies, and bring the role of market regulation into full play, are being studied and drawn up. In short, the state has paid increasing attention to the use of economic levers to regulate national economic operations, achieving good results and a certain amount of experience, which is being acknowledged by more and more people as a symbol of 1991's deepening of reform.

II

In three years of hard work, we have basically achieved our major improvement and rectification objectives. Not only did our reforms not stall during the rectification of our economic order, but we actually made new advances in many areas, as some reform steps were very great. This has enabled China's national economy to undergo the throes of a difficult period of retrenchment from overheated and inflationary condition of 1988, enabling it to begin to enter a stage of normal growth in 1991, in which economic conditions are now developing in a good direction.

Moreover, as certain deeper conflicts in our economic activities were also more clearly exposed during the period of improvement and rectification, certain perplexing key economic problems have reached the point of having to be solved determinedly. Within a setting of more obvious problems, such as the structural market slump and the continuous recurrence of "triangular debt," problems of

poor economic performance, such as the poor economic performance of large- and medium-sized state-owned enterprises, the slow pace of economic structural adjustment, the plight of state revenue, and increasing latent inflationary pressure in particular, have become the most glaring ones in our current economic development. The source of such problems, in addition to economic policy, decisionmaking, and work imperfections per se that need to be revised and improved, is basically found in the process of economic system and changeover of operating forces.

In a dozen years of reform and opening up to the outside world, China's economic order and operating forces have undergone great changes, and our socialist commodity economy has experienced sizeable developments. One problem is that some of our state-owned enterprises, large- and medium-sized ones in particular, have still not been able to make the corresponding operating forces changeover, so that their operating forces are still not well-suited to the combination of planned economy and market regulation. This can be seen mainly in areas, such as commodity economy concepts and competitive mentalities still being poor, production operations still being dependent on government and planning instead of becoming more market oriented, enterprise operating forces, effective personnel and distribution ones in particular, still not having been completely established, and the problems of "iron rice bowls" and "everyone eating out of one big pot" certainly not having been resolved. Another key problem is that the government's economic control functions have still not been changed over properly, so that direct control of enterprises as symbolized by administrative measures still exists, and has an impact on the changeover from the old system to the new. This presents enterprises, large- and medium-sized state-owned ones in particular, with the following difficulties: 1) On one hand, as enterprises are faced with sharp competition on both international and domestic markets, they have a pressing need for greater production operation decisionmaking power. 2) On the other, as the government still directly controls enterprises, large- and medium-sized ones in particular, through measures such as directive planning, materials distribution, and pricing control, enterprises are forced to look for ways out of their production operation difficulties through asking help from "mayors" instead of seeking markets. A third problem is that in order to grow in a socialist commodity economy, enterprises, large- and medium-sized state-owned ones in particular, need a sound market system in order to exist and grow in the midst of market competition, while such an orderly market system has not yet been completely established. Finally, in addition to the economic relations between the state and enterprises not yet having been completely rationalized, central-local relations still contain many unresolved basic problems. While the guaranteed revenue payment system has played a very good role in arousing local initiative in the generation, use, and management of revenue, it has also caused conflict of interest problems, such as duplicate construction, protection of backwardness, and particularly market separatism.

These have affected the adjustment of economic structures, the development of lateral economic alliances among enterprises, and the establishment of a uniform socialist market.

These deeper problems that exist in our economic activities, and their profound system and forces causes, have brought us to the realization, when considering our key 1992 economic reform tasks, that we must emphasize priorities, grasp key links, and come up with a series of complete reform measures. Premier Li Peng pointed out in a speech to a central working conference the following: "Our economic policy for 1992 will be to further push on with reform and opening up to the outside world and, based on consolidating our improvement and rectification successes and continuing to maintain a basic balance between overall supply and demand, to shift our economic focus onto a path of structural adjustment and performance improvement", "our reform in 1992 must remain in line with the need to develop a socialist planned commodity economy, which combines planned economy with market regulation and, while further pushing on with rural reform, we must focus on invigorating large- and medium-sized enterprises, and carry out complete reforms."

The Eighth Plenary Session of the 13th CPC Central Committee had key significance. This is because it was the first time since the Third Plenary Session of the 11th CPC Central Committee in 1979 that the Central Committee has held a seminar on agriculture and rural work. All of the resolutions passed by the Eighth Plenary Session set clear provisions on agricultural developments and key rural reform tasks for the next decade, as well as making policy plans for carrying out socialist indoctrination in the rural areas. Our rural reforms in 1992 will certainly experience new developments that will be guided by the spirit of the Eighth Plenary Session.

As 1992's reforms will be focused on invigorating enterprises, large- and medium-sized state-owned ones in particular, by giving enterprises full management decision-making power, changing over enterprise operating forces, and improving enterprise competitiveness and economic performance, comprehensive measures must be taken in many areas, such as internal and external conditions and enterprise reform and management.

Reforms within enterprises will be as follows: 1) We will conscientiously implement the "Enterprise Law," by granting enterprises the proper independent decision-making powers for which it clearly provides. It is now most important to grant the following four independent decision-making powers, with the establishment of corresponding forces: a) enterprise cadre management decision-making power, with the corresponding promotion, demotion, recruitment, and hiring forces; b) enterprise labor employment decisionmaking power, with the corresponding workforce optimization, overall workforce contracting, firing, and unemployment forces; c) enterprise distribution decisionmaking power with, premised on accepting state control of payrolls, the corresponding

enterprise internal distribution method, pay grade widening, and reward and penalty forces; d) enterprise staffing decisionmaking power, with the forces corresponding to voluntary staffing decisions based on production operation needs, without the necessity of higher or lower level counterparts. 2) We will persist in elimination through competition, by establishing bankruptcy forces, and pushing forward with structural adjustment of enterprise organization and rational circulation of key production factors. The testing of our "Bankruptcy Law," along with the necessary shutting down, merging, and changeover, are all effective methods. Pushing forward with enterprise contracting of other enterprises, enterprise mergers, and development of enterprise groups will be of key importance. 3) Enterprises, particularly their leaders, will enhance their commodity economy mentalities and market competition concepts by putting enterprise production operation activities to market-oriented tests. 4) Enterprises will establish forces to speed up technical advances by eliminating shortighted activities, paying attention to the development of stamina and new technologies and products, enhancing their business management, and improving their overall proficiency. This will be a key link in invigorating enterprises, large- and medium-sized state-owned ones in particular. 5) We will conduct pilot projects in "the separation of taxes from profits" and shareholding systems in a planned and guided way. Based on standardizing the economic relations between the state and enterprises, increasing enterprise decisionmaking power, and appropriately separating management from ownership, we will further clarify property rights relations and study effective forms of public ownership, in order to make further advances in achieving our enterprise reform objectives. 6) Based on most enterprises that are practicing the contract management responsibility system having begun their second round of contracts in a better economic climate, we will improve our contracting methods, by making real efforts to improve economic performance and management proficiency and speed up technical advances.

Reform of enterprise external conditions will be focused on invigorating enterprises, large- and medium-sized state-owned ones in particular, as follows: 1) The most important step will be to improve the form of government administration of enterprises, by increasing indirect administration, and deregulating ordinary enterprise production and construction activities. A key part of this will be continuing to appropriately reduce directive plan product variety and proportions, by quantitatively cutting down on centrally distributed goods and materials. State goods ordering methods will be tested even for directive plan products. State regulation of many production management activities will become market-oriented mainly through the use of economic measures, such as interest, tax, and exchange rates, and pricing and revenue. 2) The state will deregulate its control of enterprise product pricing. Except for the current use of planned prices for a few key manufactured goods and agricultural products that are important to the national economy and the people's livelihood, all other products should be deregulated to market regulation, so that rational prices can evolve

through market supply and demand. Moreover, governments at all levels will make efforts to cultivate and develop markets, such as consumer goods markets, capital goods markets, and all types of key production factor markets, including money markets in order to create good market conditions for enterprise competition. (1) In order to restrain government actions, we will take strict steps to lighten enterprise burdens, by stopping all nonessential inspections, appraisals, and promotions, so as to enable enterprise and product quality to be tested and judged through market competition instead of government organization. We should also incentives all taxes, fees, funds, bonds, and fundraising, and not impose any new taxes on enterprises.

Increased enterprise reform is closely interrelated with commercial circulation reform. Both state-owned materials and commercial enterprises will make new efforts to change over their own operating forces, so that invigoration of circulation enterprises will vigorously promote that of production enterprises. We will continue to develop various commodity markets in the field of circulation, by expanding lateral economic alliances among industrial, commercial (materials) enterprises, and studying the establishment of new forms of organization for circulation enterprises, and enterprise groups with economic might and capability. We should conscientiously sum up the experiences and steadily improve all of the already established central and regional wholesale agricultural product markets, and materials trade and distribution centers. In various cities during 1992 we will widely popularize Chongqing's experience of "the four deregulations" of state-owned commercial enterprises and Tianjin's in separate profit and loss fund management, which will play a good role in invigorating both commercial and production enterprises.

Improved enterprise reform, especially labor personnel reform and the establishment of unemployment and bankruptcy forces, will all have to be backed up by an improved social security system. Based on the several years of experiments that we have conducted, we will sum up our experiences in 1992, focus on old-age unemployment, and medical insurance, adhere to the principle of rational burden sharing by the state, work units, and individuals, and continue to push on with social security reforms.

Having already begun to form a favorable macroclimate for housing reform in 1991, we will start full-scale housing reforms in more provinces and cities in 1992. Based on the principles of uniform policy, measures suited to local conditions, decentralized decisionmaking, and diversification of form, as well as the policy of rational burden sharing by the state, work units, and individuals, we will develop rental, sale, and construction simultaneously and achieve considerable advances and successes in both individual and comprehensive housing reform. Even though housing reform is only both in the beginning and throughout, as long as party and government leaders at all levels are determined, we will certainly be able to overcome the difficulties and sharply accelerate our pace of housing reform.

In order to establish standardized central-local relations, rationalize revenue systems, and speed up the development of a socialist uniform market while continuing to improve our guaranteed revenue payment system in 1992, pilot projects in tax separation and guaranteed payment will be put into practice in five provinces and three cities in order to acquire experience for future full-scale tax separation. As the solution to our grim revenue problems will be found not only in improving enterprise efficiency, increasing revenues, and cutting expenditures, but also in budgetary reform, we will practice a double-entry budgetary method for revenue and expenditure in 1992. Improving our circulation tax system, increasing our value-added tax percentage, and merging our bonus taxes and individual income regulation taxes, will also be key tax reform tasks for 1992. Using credit scope, orientation, and interest rate measures flexibly in line with economic development and industrial policy, speeding up our development of money markets, long-term money markets focused mainly on various kinds of negotiable securities in particular, and doing a good job of operating the Shanghai and Shenzhen stock markets will be our monetary reform priorities in 1992. As our steady development and improvement of operating forces that combine planned economy with market regulation are making it urgent that the government change its economic control functions, government departmental reform will also be imperative.

In 1992, we will also sum up our 1991 foreign trade reform experiences, expand our enterprise group foreign trade rights, make greater efforts to reform our import management system and regulation and control measures, and speed up our pace of opening up to the outside world.

Contract Management System, Development Viewed

92CED1264 Beijing CAIMAO JINGJI (FINANCE AND TRADE ECONOMICS) in Chinese
No. 10, 11 Oct 91 pp 19-24

[Article by Liu Guangdi (0491 0342 4574), Central Finance Academy: "A Theoretical Analysis of the Contract Management System and Its Future Development"]

[Text] I. The Theoretical Bases of the Contract Management System

The creation and universal implementation of the contract management system has not occurred because of it is someone's subjective wish, there is an objective basis for the phenomenon. I believe that it can be analyzed from three primary perspectives.

A. This system smooths out the conflict between exchanges of equivalent labor and valorization of funds.

During the transition from a highly centralized planned economy to the planned commodity economy, it would be impossible to depend completely upon either a planned economy or a market-regulated economy. It would also not be viable to depend on a shareholding system or a leased management system. I believe that implementing the contract management system is the only way to unify valorization of funds and the exchange of equivalent labor, and

to unify the income of the proprietors with the income of the laborers. This is because the contract management system has the following characteristics:

1. On the foundation of the system of ownership of the whole people, the contract management system taps the enthusiasm of laborers and managers, and it achieves a valorization of assets and increased income for laborers. Under the socialist commodity economy, both valorization of funds and increased income for laborers depend upon the creation of laborers. A special characteristic of the contract management system is that it relies upon increasing the interests of workers and staff to tap their enthusiasm. Enterprise interests are the drive mechanism, and the property interests of the state are the result of the contract management system. For laborers, the contract management system is a mechanism of stimulation, not of elimination. During the transition from the centrally planned system to the commodity economy, it would be unbearable for laborers if the elimination mechanism were used everywhere; it would elicit tremendous resistance. The mechanism of stimulation, however, has great cohesive force among laborers.

2. The contract management system achieves two major objectives by dividing responsibility, authority, and interests. Laborers are the proprietors of state-owned property, and they are also laborers. As laborers, they should effect the exchange of equivalent labor, and as proprietors, they should effect the valorization of assets, so there are two driving forces, two major objectives; the two are in conflict, but are also unified. In a systemic sense, how are they to be unified? The best way is through a rational division of the responsibility, authority, and interests of the state. The most important principle of the contract management system requires that (always within the context of combined responsibility, authority, and interests) the enterprise take responsibility for delivering a set amount of profits to the state while, at the same time, it links total wages to economic benefits. In this manner, interests are clearly demarcated, and the system is highly transparent. The valorization of funds is assured, as is the exchange of equivalent labor. Only the contract management system can simultaneously take care of the requirements of these two mechanisms. Other systems, such as the shareholding system, cannot perform such a task.

B. Given the uneven levels of economic development throughout the country, this system is appropriate for China.

The contract management system meets the needs of a nation in which the forces of production are developed very unevenly. In accordance with the need for a certain degree of unity in policy, the contract management system takes enterprises one by one and reviews and sets the base number which determines how much of their profits must be delivered to the state. It smooths out the conflict between valorization of assets (in the form of profits delivered to the state) and increased income for laborers (manifested in the principle "to each according to his labor"). In this manner, the contract management system satisfies the need for increased state fiscal revenue at the

same as it taps the enthusiasm of laborers, and it is only by tapping the enthusiasm of laborers that the valorization of assets and increased state fiscal revenues can be assured.

C. This system makes up for the shortcomings of the market mechanism.

During the transition from a highly centralized planned economy to the planned commodity economy, if we pushed enterprises completely into a market economy, they would face many difficulties that would be difficult to overcome because the market is not fully developed and it plays a highly irregular role. Enterprises would have to deal with unbearable risks. Under these circumstances, the contract management system serves as a "conversion device." On the one hand, the state accepts part of the risk, and on the other hand, this system makes enterprises gradually become acclimated to the market, improve economic benefits, economize on labor, and seek technological progress. This is a new mechanism which combines the superior points of the socialist system of public ownership with the superior points of the market economy. As the market matures, it will not mean the end of the contract management system; on the contrary, it could improve more and more and play an even greater role.

II. The Practical Value of the Contract Management System

The "theoretical value and practical value" of the contract management system lies in the fact that it reflects the "historical reality and developmental process" of China's economy, and in the fact that it satisfies China's need for economic development. The contract management system offers the following three primary types of practical value:

A. It contributes in an appropriate way, a mechanism to hold interests in check and a mechanism to hold finances in check. In an actual socialist society, income is not only distributed according to the labor of each laborer; it is also distributed according to the property of each property owner. Here lies a conflict. The contract management system finds a good job of combining the mechanism to check the interests of the laborer with the mechanism to check the property of the property owner. For example, the contract management system at the Shoudu Iron and Steel Corporation is essentially carrying out contracted remittance by progressive profits because it not only has achieved the contract task of increasing profits by 7.2 percent every year, but has also continuously upgraded its technology, thereby greatly increasing its assets. During these 12 years of reform, the taxes and profits remitted to the state, plus the newly increased fixed assets of the Shoudu Iron and Steel Corporation have amounted to 13.2 billion yuan, of which newly increased fixed assets accounted for 3 billion yuan. At the end of 1978, the net asset value of the Shoudu Iron and Steel Corporation was 1.404 billion yuan (original value of 1.690 billion yuan). By 1990, the net asset value was 3.208 billion yuan (original value of 4.662 billion yuan). The original Shoudu Iron and Steel Corporation has now become three Shoudu Iron and Steels. If we base our calculation on overall economic strength (including production capacity), we find that Shoudu Iron and Steel becomes four Shoudu Iron

and Steels. It is thus apparent that the Shoudu Iron and Steel Corporation has been carrying out guaranteed assets valorization. In addition, after completing the task of the state as owner, in its internal operations Shoudu Iron and Steel has carried out exchange of equivalent labor; more labor brings more compensation. It has maintained a floating ratio of 0.8:1 between total wages and total profits; for every 1 percent rise in total profits, total wages rise 0.8 percent. Because the base number for total profits is always much greater than that for total wages, and with the additional check of the fixed ratio between the two, total wages cannot increase faster than economic benefits. Via the contracting system, Shoudu Iron and Steel has greatly added to its property, and at the same time it has greatly improved the lives of its workers and staff, thereby achieving a proper coordination of the relationship between capital and labor.

B. The contract management system has strengthened cohesiveness and helps to consolidate the socialist system of public ownership. The contract management system calls for "contracting for a fixed base number" and "retaining more when revenues exceed the base number," or "contracting for a fixed base number" and "retaining all revenues in excess of the base number." This gives an enormous incentive to enterprise laborers. Of course, contracting for a fixed base number is the most important aspect of the system. If the base number were not fixed, the enthusiasm of enterprises and laborers would be lessened. For example, both the Shoudu Iron and Steel Corporation and the Anshan Iron and Steel Corporation are carrying out contracted remittances according to progressive profits, but at Shoudu Iron and Steel, the base number is fixed, while this is not the case at Anshan Iron and Steel. Various taxes and fees introduced in recent years have placed added burdens on the enterprise, causing the retained profits of Anshan Iron and Steel to plummet, saddling it with heavy debts, and robbing it of the necessary impetus for further development. In the contracting system, the base number has to be fixed. Practice has proven that with a fixed base number, laborers feel more incentive, and cohesiveness is greater, when enterprises are allowed to retain all revenues in excess of the base number than when enterprise are only allowed to retain a portion of revenues in excess of the base number. This in turn helps to consolidate the socialist system of public ownership.

C. The contract management system has provided a method for combining planning with the market. The contract management system is based on the system of ownership by the whole people, but it is open to the market. On the one hand, it demands that enterprises meet the requirements of the plan and remit the profits to the state that the plan calls for; on the other hand, it demands that enterprises accept the challenge of the marketplace and become competitive there. Continually perfecting the contracting system provides a way to achieve the combination of the plan with the market.

D. The contract management system helps the state to combine microeconomic stimulation with macroeconomic

regulation and control. Within the framework of implementing the contract system, employing methods in which profits coexist can maintain the unity of the state's financial and tax systems, and can also allow the enterprise's business operations to be flexible, and is conducive to organically combining unity and flexibility. The state collects revolving taxes from state-owned enterprises and can use the tax lever to exercise standardized regulation and control over enterprises. At the same time, by signing contracts with enterprises, the state can exercise non-standard control over enterprises, pushing them toward the market, forcing them to take part in market competition and adapt to market requirements. This would stimulate the economy at the macroeconomic level.

E. The contract management system created the necessary preconditions for the tax sharing system. There has been an excessively heated debate in the past over whether the contract management system was feasible, and a some time ago there was a dispute over the shareholding system versus the contract management system. Let us put off discussion of these matters for the time being. Later there was a dispute over the tax sharing system and the contract management system. Because this dispute continued, it became impossible to perfect the system of enterprise operations. In a perfected system of enterprise operations, the enterprise should have autonomy over and responsibility for its own operations, profits or losses, accumulation, and development. It should regulate and discipline itself. This item of reform involves many sectors of the national economy. Can the tax sharing system be implemented now? I believe it is impossible. It can only be implemented after the contract management system and the enterprise operations mechanism have been perfected. Why? Because the theoretical foundation of the tax sharing system is "taxes." When it comes to taxes, the target of distribution is enterprise profits, while when it comes to "profits," the target of distribution is enterprise surplus. "Corporate law" in countries where commodities are highly developed stipulates that the term "enterprise surplus" refers to enterprises profits for the year minus all taxes and enterprise public funds. Only this surplus can be used to carry out distribution and pay off other benefit expenses in accordance with the rights of the property owners. In general, "corporate law" stipulates that it is illegal to withdraw enterprise public funds prior to distribution of the surplus. "Taxes" are a type of macroeconomic behavior in which the state plays the primary role, while "profits" are a microeconomic distribution behavior in which enterprises play the primary role. For this reason, we do not now meet the requirements for implementing the tax sharing system. In the tax sharing system now being planned, profits remitted to the state are accorded top priority in the profits distribution system, which means that enterprises cannot withdraw any funds until they have made their profit remittance to the state. This system does not accord top priority to enterprise public funds; it does not allow enterprises to withdraw public funds before carrying out surplus distribution. It is the state, not the enterprise, which plays the main role in the distribution. All of these conditions run counter to the principles of the

tax sharing system. For this reason, if the tax sharing system were implemented now, not only would enterprises be overwhelmed by the heavy taxes, but the system itself would not work due to its internal contradictions. However, after the contract management system has been implemented and perfected, the conditions for implementation of the tax sharing system will exist, because if we earnestly implement the contract management system, we will have to strengthen and expand the operational and ownerships autonomy of enterprises, which will enable enterprises to truly gain the authority to expand reproduction and the corresponding ability to carry out independent accumulation. They will act in accordance with this requirement by carrying out corresponding reforms of the investment mechanism and the finance mechanism, enabling enterprises, rather than the government, to act as the investment subject. The accumulation function of reproduction will be expanded. Enterprises, rather than the government, will play the main role in financial matters. After the funds accumulation function has shifted from the state to the enterprise, the primary role of the state in profit distribution will also shift to the enterprise. Only then will it be possible to implement the tax sharing system.

III. A Comparison of the Contract Management System and the Shareholding System

There is no lack of people who argue against the contract management system and in favor of the shareholding system. How exactly should we regard these two systems? This question is worth looking into. Those who oppose the contract management system do so for many reasons, the main ones being: the contract management system is a byproduct of small-scale agricultural production, and as such is a backward economic form; the contract management system is not standardized; it cannot optimize resource allocation; it lacks cohesiveness; it encourages short-term behavior; the government is not separate from enterprise operations, etc.

Is the contract management system a byproduct of small-scale agricultural production? I think not. It is the byproduct of several phenomena of socialism in its early stages, such as lack of coordination between labor and capital, uneven economic development, and incomplete maturity of the market mechanism. Contracting and the contract management system are not the same thing. As a method of operations and management, contracting has been in existence since ancient times. The *Dream of the Red Chamber* describes how Miss Tanchun, who managed Daguan Yuan, had a system of contracting worked out with the female servants. In contemporary Western nations it is commonplace to award a contract for a construction project or manufacture of a certain product to a certain company. There is a specific way in which China's contract management system is supposed to run. This is spelled out clearly in the Temporary Provisions for the Contract Management Responsibility System in Enterprises Under the Ownership of the Whole People, which was issued by the State Council in March 1988. The problem is that these provisions have yet to be fully implemented, and they need to be revised in some places.

As for the unstandardized nature of the contract management system, this is inevitable given the uneven development of China's forces of production. In fact, only an unstandardized system like this is appropriate for use in unstandardized economic conditions.

As for the problem of optimizing resource allocation, it is true that the shareholding system is theoretically capable of performing this function, but it cannot do so when markets are not yet mature, factors of production cannot circulate freely, and the securities market is only just being established. Secondly, because China's commodity economy is not highly developed, the bankruptcy mechanism is still very limited; if the bankruptcy system that is part of the shareholding system were broadly implemented, it would overwhelm enterprises, laborers, and society. This will continue to be the case for at least a certain period of time. The contract management system, on the other hand, relies on a mechanism which provides incentives. Enterprises contract for and merge with other enterprises, with the result that enterprise groups are formed. Thus it is actually the contract management system which, to a certain extent, can perform the function of optimizing resource allocation. This is a very practical issue, not solely a theoretical one.

As for cohesiveness, some feel that the shareholding system provides it. They say that "holding shares in the same company unites people," and that the contract management system lacks cohesiveness because people are not concerned about company property. I believe that the income of laborers is linked directly with the economic benefits of an enterprise, not with how many shares they own, so the cohesiveness provided by the contract management system is actually greater than that provided by the shareholding system. Furthermore, is there a limit to the amount of shares a laborer can own? How is the conflict between income from shares and income from labor to be resolved? All these issues require further study.

As for encouraging short-term behavior, this is a very complex issue. Short-term behavior has cropped up in some enterprises operating under contract management because the contract period is too short, because the base number does not remain fixed, or because they have not been allowed to retain all revenues in excess of the base number. This problem should be corrected, of course, but at the same time we should be aware that short-term behavior is not limited to enterprises; this type of behavior is even worse in some agencies of macroeconomic regulation and control. This is evidenced primarily by the fact that they show little concern about the need of enterprises to maintain momentum for future development, but instead impose numerous burdens upon enterprises. They have many measures to control firms which yield a lot of fiscal revenues, yet they have few to prevent assets from being taxed to exhaustion, or to deal with the problem of apparent profits which mask real losses. All of these situations indicate short-term behavior at a higher level; one cannot criticize only enterprises or laborers for this type of behavior. If short-term behavior is to be overcome, everyone above and below must unite in a shared effort.

As for the lack of separation between the government and enterprise operations, this problem cannot be solved in a short period. While upholding the system of ownership by the whole people, we must combine the interest check mechanism with the property check mechanism so that enterprises will enjoy not only complete operational autonomy, but ownership rights, as well. Only then can government be separated from enterprise operations.

In short, I believe that the contract management system is the inevitable byproduct of the transition from the old system to the planned commodity economy. In no way has it been invented to satisfy anyone's subjective wishes, in the early stages of socialism, its existence and development are inevitable.

The shareholding system and the contract management system have different strengths, they complement each other. The strength of the shareholding system is that, within the context of clear equity ownership relationships, it resolves microeconomic operational and management problems within the enterprise, and it plays a major role in the elimination mechanism. The strength of the contract management system is that, within the context of a successful conversion to a new enterprise operational mechanism, it deals successfully with the macroeconomic relationship between the state and the enterprise even as it handles microeconomic operational and management issues within the enterprise. It plays a major role in the incentive mechanism. China's economic situation is very complex. One cannot insist upon a single type of system. The contract management system and the shareholding system exist side-by-side. They are not opposed to each other, but mutually compatible. The idea that "the contract management system is transitional and the shareholding system is the final solution" is mistaken. The two systems have appeared concurrently in enterprises which are operating under the contract management system as they merge with other enterprises. For example, Shoudu Iron and Steel bought a 70 percent interest in the Mai Si Te [7796 2448 1044] Design and Engineering Company of the United States, and Shoudu Iron and Steel is using a stock issue to raise capital to start up the Qilu Iron and Steel Corporation in Shandong Province. In enterprises which have implemented the shareholding system, the contract management system can also be implemented. Because the shareholding system right now is still very unsound and enterprise profits everywhere are too low, only by implementing the contract management system can the enthusiasm of the laborers be tapped. For this reason, some enterprises under the shareholding system have instituted a system in which the factory head (manager) and the owners carry out contract management on behalf of the board of directors. The only difference between this and the contract management system is that it is the board of directors rather than the government which awards the contract, so I believe that these two operational mechanisms are long-term compatible.

IV. Future Direction of the Contract Management System

A. The external environment for the contract management system will be improved. To improve the contract management system, we must improve internal enterprise management and the external environment at the same time. Improvement of the contract management system touches upon planning, fiscal policy, banking, materials, prices, and labor. If strong support is not forthcoming in all these aspects, the contract management system cannot work properly. For example, there is still no legal support or check to back up the idea of making enterprises "take responsibility for their own profits and losses." Another example: After a management contract has been awarded for an enterprise, its responsibilities to the government should remain fixed while it retains all revenues in excess of the base number, but tax categories and rates generally continue to grow for most enterprises even after the contract has been awarded. All sorts of "funds" are introduced, and enterprises are hit with every sort of requisition imaginable. This seriously impairs the external environment in which the contract management system operates, undermines the credibility of the Enterprise Law and the Contracting Provisions, and weakens the capacity of enterprises for future development. Another case in point: for some products called for by the state plan, neither supply of the necessary raw materials nor procurement of the finished product are assured, which creates great problems for enterprise production.

In order to improve the contract management system, everyone from top to bottom must eliminate short-term behavior. All agencies of macroeconomic regulation must unify understanding, unify actions, act in the best interests of the whole, and carry out coordinated reforms so as to allow enterprises to "fill the ponds and hatch the fish." Agencies in charge of fiscal policy should change their mentality of support for a highly centralized product economy and think instead in terms of a planned commodity economy, channeling wealth toward enterprises. It will not be possible in the short term to increase the percentage of national income going to fiscal revenues, or to increase the percentage of fiscal revenues going to the central government. Because the depreciation rate in China's enterprises is too low (no mention is even made of listing depreciation funds with profits), national income appears greater than it actually is, in turn, the percentage of national income going to fiscal revenues appears smaller than it actually is. Agencies in charge of fiscal policy cannot use this reason to raise the percentage of national income going to fiscal revenues. What they should do is help enterprises to increase the size of the pie. Secondly, agencies in charge of fiscal policy should tighten their belts and prevent waste. Thirdly, fiscal agencies should focus on tax collection in their efforts to increase fiscal revenues. Instead of raising taxes, they should work to prevent tax evasion. Government agencies at every level should resolutely stamp out corrupt practices (exorbitant fees, requisitions, fundraising impositions, and fines) in industrial regulation. Planning agencies should reduce the scope of enterprise activities covered by the state plan and increase

the scope of market regulation. Materials agencies should assure the supply of materials needed for production of goods called for the state plan, and they should see to it that product procurement plans are carried out. All relevant departments must earnestly return to enterprises the 13 types of authority listed in the Enterprise Law.

B. A dual equity structure will be established. The Contracting Provisions stipulate that contract enterprises must separate ownership rights from operational authority. Looking at the situation now, this approach does not seem quite accurate. I already stated at the beginning of this article that to enable enterprise assets to maintain value, appreciate, and valorize, we must make enterprises become equity subjects, operational subjects, and interest subjects. This requires that the contract management system change from being an original single equity subject into a diversified original equity subject. We must establish a dual equity structure. This means that not only must the contract management system make the state and enterprises separate themselves from ownership rights and operational authority, but it must also cause ownership rights themselves to split into two categories, e.g.—the state should enjoy legal ownership of the property of state-owned enterprises, while enterprises enjoy economic ownership of enterprise property. By the term "legal ownership" I mean to say that the state exercises final disposition and oversight of property, and it receives or bears the corresponding interests and risks. By "economic ownership" I mean to say that the enterprise has the right to possess, use, allocate, and invest in enterprise property, and it receives as a result the corresponding economic profits. If one regards this as the separation of operational authority and ownership rights, then this type of separation is the separation of legal ownership (or simple ownership) and economic ownership; it is the separation between the legal ownership of the means of production and the actual possession, allocation, and use of the means of production. Equity rights set up in this manner constitute a dual equity structure: the state, as the legal owner, is an initial equity subject, while the enterprise, as the economic owner, is the legal person equity subject. The legal person equity subject, as the representative of the owners within the enterprise, bears complete responsibility for operations involving enterprise property. Each of the four parties (the initial equity subject, the legal person equity subject, the operator, and the laborer) has its own area of responsibility and interest mechanism. Initial equity holds legal person equity in check, legal person equity holds the operator in check, and the operator holds the laborer in check. As a result, the owner, the operator, and the laborer each fulfills his responsibility, stimulating and holding each other in check.

Let us take the Shoudu Iron and Steel Corporation as an example. The original equity of Shoudu Iron and Steel Corporation naturally belonged to the state. Shoudu Iron and Steel has set up a factory committee which serves as the highest policy making organ when the congress of representatives is not in session. It already has an embryonic form of legal person equity. The Shoudu Iron and Steel Factory Committee is completely responsible for

business operations, and the state can no longer interfere arbitrarily. Shoudu Iron and Steel has in reality already become a legal person equity subject, an operational subject, and an interest subject, it is only for this reason that it has been able to basically become a commodity producer which enjoys operational autonomy, takes responsibility for its own profits and losses, carries out its own accumulation, develops itself, upgrades itself, and disciplines itself, it is also for this reason that it has been able to basically achieve the enterprise reform objectives laid out by the Central Committee of the Communist Party of China.

C. Asset management contracting will be implemented. The Temporary Provisions for the Contract Management Responsibility System in Enterprises Under the Ownership of the Whole People, which was issued by the State Council in March 1988, stipulated that the main emphasis of the contracting system would be the remittance of profits to the state. It appears now that there are many problems when focus is placed solely upon the remittance of profits to the state. In order to maximize the interests of enterprise workers and staff, many enterprise contractors pull out all the stops to assure that profit quotas are met, and when they are not able to meet these quotas they take advantage of loopholes and exaggerate the costs in order to bring profits up to quota. State-owned assets have been borrowed on heavily and are in danger of being picked clean. Studies have shown that according to the book value of assets, a shortfall of 30 to 60 billion yuan in depreciation funds have been withdrawn in recent years. What is more, some enterprises fail to withdraw these funds, or under-withdraw, which makes the debt even larger. If we continue to withdraw depreciation funds on fixed assets according to original value, even if the price index rises no further in future depreciation years there will be over 70 billion yuan worth of fixed assets which will not be replaced. In view of this situation, the State Council stated in the Notice on Strengthening Management of State-Owned Property, which it issued in July 1990, that it was completely correct to assure the completeness and valorization of state-owned property in the new contracting period.

Everyone says that revitalizing large- and medium-sized enterprises is a key aspect of the effort to further economic reform. Then what, exactly, does the term "revitalize" mean? And how are we to achieve it? "Revitalization" is generally understood to mean enabling enterprises to become socialist commodity producers which enjoy operational autonomy, take responsibility for their own profits and losses, carry out their own accumulation, develop themselves, discipline themselves, and regulate themselves. However, this type of standard is not concrete enough; a concrete standard should center on the question of whether assets (funds, in actuality) are valorized. As factors of production, the fundamental requisite for funds and capital is to be valorized. When funds are valorized, it shows that capital is circulating in a healthy manner, and that it is circulating continuously in the form of currency funds, production funds, and commodity funds, and in the

course of this continuous circulation their value increased. This is the clearest indication that an enterprise has been revitalized.

We must require that enterprise funds (assets) maintain value, appreciate, and are valorized. Maintaining value is the minimum requirement, it is the manifestation, in terms of value, of simple reproduction, and it is required if the loss of funds is to be avoided. Appreciation is an increase in value which results from maintenance work and inflation. It is also very necessary, otherwise existing funds would rapidly decline due to natural wear and tear on assets, or because of inflation. However, the most important thing is valorization of value. This is the key aspect of funds, and it is the key to whether an enterprise is to be revitalized. Although the Shoudu Iron and Steel Corporation has implemented the contracted remittances by progressive profits, it is in reality engaged in contracted assets valorization. In order to perfect the contract management system, the quota profits system (in reality an income tax quota system) should be dropped in favor of an asset management contracting system. In this manner, we can make enterprises take responsibility for state assets by making sure that they maintain value, appreciate, and valorize. In order to institute asset management contracting, we must take inventory of state-owned property and get a clear picture of the economic benefits on state-owned property. In the new contracting period, in addition to appreciation and valorization of fixed assets, the contractor must also take responsibility for accelerating circulation of operating funds, supplementing them, and assuring their integrity, having achieved this, the contractor should take responsibility for valorization. Enterprises have great difficulties right now, however, so the aforementioned maintenance of value, appreciation, and valorization should be achieved one step at a time. At the same time, the state must implement the "return authority, create profits" policy vis-a-vis enterprises. Under such a policy, the state would return to enterprises the autonomy over production and operations which had been theirs in the first place, and enterprises would then be able to take full advantage of this autonomy to create more profits for the state. Of course, enterprises and laborers would obtain greater interests as a result.

AGRICULTURE

Hainan Establishes Agricultural Stock System

92CE0299C Beijing JINGJI CANKAO BAO in Chinese
26 Jan 92 p 1

[Article by Xia Kaixuan: "Multiple Partners, Logical Orientation, Additional Reserve Strength"]

[Text] The Hainan Minyuan Agricultural Development Company Limited that was formed with the Meiting experimental district for comprehensive agricultural development as the project, the Minyuan Hainan Company providing the capital, the Chinese Academy of Sciences providing scientific and technical support, and other enterprises and individuals providing funds as shareholders, was recently approved by the Hainan Provincial

Government to be officially established to do business. The establishment of this stock type enterprise for agriculture opens up a new channel to introduce capital and technology from urban areas to rural areas.

The Meiting experimental district for agricultural comprehensive development has an area of 10.5 square kilometers, and comprises six natural villages. Last April, on a voluntary basis of mutual benefit, the Minyuan Hainan Company signed contracts with farmers in the district to initiate jointly the experimental district. According to the contract, on the premise of not changing the collective ownership of the land, the company will carry out unified planning, management and use of rural household responsibility fields and collective land within the next 50 years. At the same time, the company guarantees to realize, within three years from the date of contract signing, an average income level of 6,000 yuan per laborer with 1990 average income of 700 yuan per laborer as the basis. Many experts consider this type of experimental district jointly undertaken by a company, farmers and a scientific institution, a daring exploration to deepen reform of the rural economic system in China and speed up the development of agriculture toward specialization, commercialization and modernization.

They think that establishing a new mechanism in the form of a stock company to channel funds rationally from urban areas to rural areas to develop agriculture cannot only resolve the problem of insufficient investment in agriculture, but also guide the orientation of idle capital in urban society and promote the adjustment of industrial structure and convert the management mechanism of state enterprises.

The Hainan Minyuan Modern Agriculture Development Company Limited will adopt a comprehensive management style that integrates agriculture, industry, trade, and science and coordinates production, supply and marketing. It will practice unit type production with division of labor on the basis of the household contract responsibility system, rationally arrange "planting, raising and processing," "production, supply and marketing," and socialized service. It will adopt domestic and foreign advanced agricultural research results, and set up an effective system for research, testing, demonstration, and propagation.

CASS on Zhengzhou Wholesale Grain Market

92CE0283A Beijing ZHONGGUO NONGCUN JINGJI
[CHINA'S RURAL ECONOMY] in Chinese
No 12, 21 Dec 91 pp 9-13

[Article by Zhengzhou Central Wholesale Grain Market's Li Jingmou (2621 4842 6180) and Li Shoutang (2621 1343 1016), Li Jing (2621 7234), editor: "Probing the Benefits of Reform of the Grain Circulation System—Analysis of China's Zhengzhou Wholesale Grain Market"]

[Excerpts] An extremely important matter in China's economic life took place on 12 October 1990: the establishment of China's first national wholesale grain market—the China Zhengzhou Wholesale Grain Market (abbreviated

below as the Zhengzhou Market). Although as a new entity it had great difficulty getting started, it had a much more widespread affect and developed much faster than people expected. The serious study of the part that Zhengzhou Market has played in macroeconomic control of grain production and circulation and the relationship of prices to supply and demand has great practical meaning and far-reaching historical significance. [passage omitted.]

II. The Operation and Actual Role of the Zhengzhou Market

Since the Zhengzhou Market has been in business, it has overcome problems resulting from policy, system, understanding, custom, and market slumps and persisted in normal operation, proceeding from the actual situation, concentrating on getting the market started, implementing preferential policies, perfecting operational mechanisms, augmenting the service function, and increasing publicity, so that the market can constantly develop and trading can become ever more active and begin to play its part.

1. Regulating Supply and Demand and Enlivening Circulation. The Zhengzhou Market is China's first uninterrupted year-around trading, modern, multi-functional, fixed trading market and can provide a great many traders with the opportunity to enter the market and trade at any time and increase market circulation. Up to the end of August 1991, it traded a total of 52.3 [as published, probably 523,000] tons. Of that 195,000 tons was wheat, 190,000 tons was corn, and 27,000 was fats and oils. Its scope has constantly expanded and its attraction has constantly increased. The provinces from which traders came to the market expanded from a few to more than 20; and the industries entering the market to trade expanded from the grain sector alone to such industries as commerce, supply and marketing, light industry, agriculture and animal husbandry, and foreign trade; and the enterprises entering the market to trade grew from the grain business alone to grain producers and processing consumers. The Zhengzhou Market has already begun to develop into a comprehensive transindustrial, transregional, transsectoral, multichannel, few link grain market and taken the first steps toward establishing itself as a central market.

2. Standardizing Trading Activity and Intensifying Reform of the Grain Circulating System. Zhengzhou Market, in accordance with state formulated market trading regulations, by law organizes, serves, and oversees trading, reflecting the principles of "openness, equality, and competition" and changing the traditional secretly dispersed closed trading patterns and bringing trading activities into standardized circulation channels. It has truly accomplished "control without rigidity and liveliness without chaos" and has, to a certain extent, changed the situation of the purchasing agents and the salesmen flying everywhere, lowered trading costs, and saved social labor. These standardized trading practices are increasingly better understood and accepted by the traders. Because Zhengzhou Market provides full service information and consultation, oversight, accounting, and transportation for the trading process, as well as effectively ensuring contract

performance, with a contract performance rate of 90 percent and above, it increases the feeling of security in the traders for entering the market and trading and wins the traders' trust in the Zhengzhou Market.

3. Plays an Initial Price Guidance Role. Presently Zhengzhou Market publishes the prices concluded every ten days in the news media and the Zhengzhou Market information publication and receives extensive attention from every segment of society. The "Zhengzhou Market price" has begun to become a guiding price to the entire nation's grain markets. This price discovery mechanism of the Zhengzhou Market is a fundamental goal of the state in opening the Zhengzhou Market and the source of the Zhengzhou Market's role as a method and a tool for national macroeconomic controls. The "Zhengzhou price" has had a strong influence in reducing large fluctuations in grain prices and stabilizing market grain prices. The regional markets also can take the "Zhengzhou price" as a standard and produce the same kind of effect, and thereby maintain relative stability in regional market prices. Changes in regional market prices also can have an affect on the Zhengzhou Market, gradually balancing interregional prices with the "Zhengzhou price." The signing of the first nonharvest, long-term, forward wheat contract on 22 March especially helped the Zhengzhou Market to begin to establish mechanisms for anticipating prices; furthermore, spot market functions are improving. At the same time, it indicates that the Zhengzhou Market has taken an important step in the transition from the spot market to the futures market.

4. Act as a Guiding Example for Reform of the Circulation System. Zhengzhou Market acts as an entirely new operational mechanism, blazing a trail not only for intensified reform of the grain circulation system, but also for reform of the entire circulation domain. It provides a basic model for the successive establishment of provincial and regional wholesale grain markets and guidance to consult in the establishment and development of markets in such sectors as goods and materials, metallurgy, commerce, supply and marketing, and light industry and textiles, while providing some new lessons for the reform of some macroeconomic control sectors and promoting research and development of such aspects as system reform, scientific research, and education for market theory.

How do we understand and evaluate the operations of the Zhengzhou Market since it opened? Economic specialists, scholars, and professors of the National Consultation and Research Group of the China Zhengzhou Wholesale Grain Market recently conducted a full scale investigation of the operations of the Zhengzhou Market. They believe that the China Zhengzhou Wholesale Grain Market is at the point of changing from the old to the new system. Beginning with a situation where the "san tong" [0005 6639—three connections] (circulation, communication, and finances) were not open, the success that it has achieved should be esteemed because it is hard to come by. Its operational practices since it opened prove that its operating mechanisms conform to the developmental laws of China's planned commodity economy. The establishment and

development of the Zhengzhou Market is a new undertaking for China, accomplishing an important breakthrough reform in the most difficult area of grain circulation and setting off on a new path combining the planned economy with market regulation with great theoretical and practical significance for reforming the entire circulation domain.

III. Problems Facing the Zhengzhou Market and Suggestions for Their Solution

The Zhengzhou Market is a new entity born in the transition from China's old system to the new system. Because the pace of reform is different and policy is incomplete, contradictions and friction with the current systems of relevant sectors is inevitable. So, some problems occur in their operations that affect the normal development of market trading and inhibit further development of the market.

1. The Issue of Trading Outside the Market. State Council Document Number 46 (1990) approving the trial operation of the Zhengzhou Wholesale Grain Market specified that there should be a planned, step by step inclusion of interprovincial negotiated price wheat trading in Zhengzhou Market trading. The first step was to be the inclusion in Zhengzhou Market trading of all Henan's negotiated price wheat transferred out of the province and some of the negotiated price wheat transferred out of the province by primary producing provinces. The second step was to be the entrance of all negotiated price wheat regulated within the province into Zhengzhou Market trading. For various reasons, these stipulations have been very hard to implement. Presently, trading outside the market actually is rather lively and the vast majority of wheat in the province still is not channelled to wholesale market trading. This affects the effectiveness of the market.

2. Communications and Transportation Issues. Since the Zhengzhou Market opened, the railroad sector has given it a lot of support, but because transport is inadequate and rail cars to and from Shanghai, Guangzhou, and Lüzhou are especially tight, only about one fourth of the Zhengzhou Market transportation plan can be resolved. This not only affects the timely fulfillment of market trading agreements, but also restricts further expansion of trading volume.

3. The Issue of Transaction Prices. In recent years, the state has established special reserve systems and has put price protection policies into effect. This is very useful for safeguarding the enthusiasm of the peasants for planting grain and equitably adjusting the relation of supply to demand. But because the protected price is much higher than the market price, it requires the Zhengzhou Market to link up with the "protected price," directly affecting the utilization of market mechanisms.

4. The Issue of Margins. The shortage of bonus money, the difficulty of getting loans in the negotiated price business sector, and the rather great discrepancy between savings and loan interest rates as well as the rather long time that the margin is pledged influences the circulation of enterprise funds and has a direct affect on the enthusiasm for

entering the market to trade. If we adopt other substitute methods, we also will suffer the restrictions of current systems of relevant departments. For example, if we use national bonds as collateral, we cannot redeem them for cash, and if we seek to establish bank credit as security, the state has no regulations and the banks are afraid to assume the risk.

5. The Issue of Combining State Macroeconomic Controls With Market Mechanisms. The establishment of a special reserve system was an important measure carried out by the state to adjust bumper harvest and crop failure. It complements the establishment of the wholesale market. The handling of the special grain reserve through the Zhengzhou Market is the most important manifestation of the combination of planned economy with market adjustment, and can greatly promote the market function. But for various reasons, the special grain reserve is administered by planned allocation. As a result, not only is the usefulness of the special grain reserve somewhat limited, but also the usefulness of the market is directly affected.

How do we resolve the issues described above? We believe that in addition to further improvements in the operating mechanisms of the Zhengzhou Market itself and improvements in the quality of its personnel and enhancement of its service function, we must have a favorable external environment and corresponding overall policy. We should implement comprehensive administration and standardization of trading practices mainly through economic, legal, and administrative means, enhance market circulation, and make trading relatively concentrated so that price formation will become more fair and reasonable, fully utilizing the macroeconomic control functions of the market. Several developed market economy countries have rather strict controls on grain and are not as free as China's state run grain [sector]. This issue is worth our giving serious thought.

IV. Probing the Development of the Zhengzhou Market

The Zhengzhou Market is China's first experimental wholesale grain market. It eventually will evolve into a futures market. This is the policy established by the state for Zhengzhou Market. It also is the inevitable law of development for the commodity economy. But why must the wholesale market evolve into the futures market and what type of futures market will it evolve into and how will it evolve? [These] are issues that receive widespread attention and are actively probed by present theorists and practitioners.

1. The Objective Inevitability of the Evolution of the Zhengzhou Market to a Futures Market. The Zhengzhou Market is now China's only national market and it functions as a means and tool for state macroeconomic control. Although the Zhengzhou Market is completely different from the traditional wholesale market and has introduced some futures trading mechanisms and has some futures market functions, it still is qualitatively different from a futures market. A futures market has the function of profiting from avoiding risks and realizing risks and thereby helping to protect the interests of producers.

businesses, and consumers and promoting the development of the commodity economy. In addition, a large volume of contract transactions can contain price fluctuations within a small range and become an indication of fair prices. And although the Zhengzhou Market acting as a spot market and a long-term wholesale market has established mechanisms to distribute the burden of long-term contract risks, the price risks certainly have not been reduced or shifted for the two parties to the transaction. Although the Zhengzhou Market has preliminary price formation and discovery mechanisms, because the spot market after all trades in goods, there is no way that the trading volume can compare with futures trading, limiting price formation to a certain extent. Because price fluctuations objectively affect grain production and circulation, people's awareness of risks is necessarily gradually increased, and they are bound to seek ways to avoid risks and to make up for losses caused by price fluctuations. The futures market is the best choice for avoiding risks, which is to say as long as we have price risks, we need to establish a futures market. So, as a national [market] the gradual evolution of the Zhengzhou Market to a futures market is an objective demand for the development of the commodity economy.

But all wholesale markets certainly do not need to develop into futures markets. Futures markets have strict qualitative and quantitative specifications and must be properly distributed by the state in accordance with the development of the commodity economy. Quantitative limits should especially be established for futures markets for the same varieties. Otherwise new territorial fragmentation and multiple pricing centers could occur, which could weaken the macroeconomic control function of futures markets. But the establishment of futures markets certainly does not rule out the development of wholesale spot markets. On the other hand, futures markets must be established on the foundation of developed spot markets. With the establishment of China's market system, national and regional wholesale spot markets and elementary trading markets must all develop in an organized, limited, and standardized way. If grain trading is allowed to drift into chaos, it could have a destructive effect on grain production. So, establishing a national grain market system and standard grain trading practices is the ultimate way that must be followed to resolve the worsening cycle in grain production and circulation.

2. Conditions and Necessary Preparations for the Evolution of the Zhengzhou Market Into a Futures Market. Material assurances: we must have a developed spot market to provide a solid material base for the establishment of the futures market. Policy assurances: price formation must not receive administrative interference. Legal assurances: we should establish grain trading laws and futures trading laws. Without legal guarantees it is difficult to have normal futures trading operations. Financial assurances: we must establish improved bank credit instruments and high efficiency accounting systems. Communications assurances: We must establish high performance

information processing procedures to realistically ensure that every locality's information is conveyed to market in a timely manner and the prices that the market transacts are rapidly transmitted to every locality. Storage and transportation assurances: We must have ample permanent trading warehouses and improved communications and transportation systems to realistically ensure normal trading operations.

To accomplish the evolution of the spot market to the futures market, we also must make the following preparations. Theoretical preparations: We must increase the theoretical study of futures markets. We must especially advance the study of the model of a futures market with Chinese characteristics to make clear progress. Preparation of public opinion: We must increase publicity about the nature, tasks, and functions of the futures market to win the understanding and support of every segment of society. We especially must dispel the viewpoint that equates the futures market with capitalism and fully recognize the function of speculation in futures trading. Personnel preparations: Because the risks in futures trading are great and it is highly technical, we must train a large group of talented futures traders who understand trading and are good at business.

3. The Basic Line of Thinking About Zhengzhou Market Evolving Into a Futures Market. The development of a futures market must go through a process of development from elementary to higher levels. Because China is presently in the process of shifting from the old to the new system, it is not prepared, either from the perspective of the actual development of the commodity economy or from the level of people's understanding, to form the social environment for a modern futures market all at once. But if we have policy assurances, the time can be shortened. If contract standardization and contract transfers are a basic distinction between futures trading and spot trading, it should not take the Zhengzhou Market very long to evolve into a futures market. It can be conceived of as divided into three steps.

The first step is to enthusiastically develop guaranteed long-range contract trading on the basis of vigorous development of wholesale spot trading and gradually form the Zhengzhou Market into a comprehensive, multi-variety agricultural byproduct wholesale market, fully exercising the macroeconomic control functions of a central market.

The second step is to study the trial standardization of contracts and promote contractual transfers on the basis of the vigorous development of guaranteed, long-range contractual trading and gradually evolve into the initial stage of futures trading.

The third step is to enthusiastically develop full-fledged value preserving and speculation businesses on the basis of the initial stage futures trading and gradually develop into a modern futures market.

Problems Facing Social Organizations

92CM01084 *Chongqing Gaochao* [REFORM] in Chinese
No 6, 20 Nov 91 pp 181-183

[By Li Jin. "The Duality of China's Social Organizations and Attendant Problems"]

[Text] Along with the rise of sociology in China, the special characteristics of China's social organizations and their attendant problems have gradually aroused people's interest. In particular, in the last several years, the renewed thinking about all social phenomena kindled by the tide of reform has caused people to understand better that China's social organizations are not merely facing a change in management style but are also undergoing a total transformation of their organizational structures. This prevailing trend is closely linked to a series of reforms in China in areas such as economics, politics, and culture. Social organizations are not only arenas in which society's members seek their livelihood (directly related to individuals), they are also responsible for all important state and social activities. For example, all activities associated with production, trade, politics, and education are undertaken and accomplished by formal social organizations (directly related to the social entity). This is why some sociologists have termed modern industrial society the "organization society."¹ Consequently, social organizations, as essential elements of society, determine the basic patterns of society, and the nature of social organizations also reflect certain basic characteristics of society as a whole. The strong relationship between social organizations and society individually and as a whole impart major theoretical and practical significance to inquiry into organizational problems.

1. The Duality of China's Social Organizations

From a sociological point of view, China is now at a transitional stage between traditional society and modern society, and its society has certain elements of both the traditional and the modern. This same duality is also quite evident in the country's social organizations.

China's traditional organizations are mainly clan-type organizations based on ties of blood and kinship as well as other relatively specialized organizations using the same basis. After liberation, owing to industrialization policies the state was implementing and a series of new requirements for developing the economy and managing society, older traditional organizations were destroyed or transformed through the use of coercive political and administrative methods (at least in the cities). To exercise administrative control, the state established new patterns of government organizations at all levels and various types of specialized organizations based on social divisions (for example, various types of enterprise institutions and rural production organizations). Obviously, a move like this could not eliminate the traditional elements in organizations all at once. In various ways, these elements still existed within the new forms of organizations and exerted considerable influence. Although new organizational principles were established, it was not possible in a short period of time for them to become the norm around which the

organization revolved. The actual functioning of an organization is often the result of old and new elements operating together.

The duality of China's organizations gives expression to an organizational structure which simultaneously possesses a two-fold heterogeneity, that is, surface structure and concealed structure. In looking at their organizational forms, we see that in the cities, most organizational units have some of the structural characteristics of modern organizations such as specialized division of labor, decentralization, management according to regulations, and mechanisms for evaluating achievement. For the most part, these are surface structures formed by an explicitly defined system. An organization's surface structure is frequently established according to the operating principles and management style of modern organizations. In form, they show a tendency toward rationalization. However, in the actual operation of the organization, these principles often cannot be totally exercised. They sometimes are merely window dressing and for form's sake. This means that principles which the organization openly proclaims are considerably removed from the principles actually observed in practice. The surface structure is not the only element at work in an organization. A concealed structure also exists. It is composed of a set of informal but effective tacitly approved rules of behavior. Although they are not openly proclaimed by the organization to have validity, they play an enormous role in the dealings of its members. It is only because of the surface structure and the control it exercises that the concealed structure recedes to the hidden level of an organization. The simultaneous existence of surface structures and concealed structures in China's organizations shows their characteristic overall duality.

The norms provided by the surface structure often are generalized and impersonal. They are the embodiment of modern organizational management by regulation. However, the norms provided by the concealed structure often are traditional and a direct reflection of spontaneous patterns in people's social contacts. With respect to society as a whole, this shows that China's social organizations still have not thoroughly divorced themselves from traditional clan-type organizations and that traditional social ties (such as blood, kinship, and land) still play a role and are of extremely important significance. From this, we see that surface structure and concealed structure are heterogeneous. They exist together in a single body and both conflict and rely on each other. This is a universal structural contradiction in China's organizations.

A serious effect of this contradiction is the widespread occurrence of irrational behavior or deviation from an organization's particular goals. Owing to the two-fold heterogeneous factors, individual goals are easily mixed up with organizational goals. Because of the diverse ties members have with each other, an organization's standards of evaluation also tend to be diversified. The result is that the norms of an organization cannot regularly yield effective results. In a twofold structure such as this, acts of transgression which deviate from an organization's goals often both violate its norms and comply with them. The

question is which of the existing norms is to be used in making a decision. The American scholar F. Fligge, in a study of family organizational development in China, called attention to this characteristic duality, terming it a "pragmatic organization." In this type of organization, the openly proclaimed rules often only function as concealment. The rules which actually have a controlling function result from complex refractions. He used the technical terms "heterogeneity," "formalism," and "overlap" to summarize this phenomenon, and demonstrated that "extremely diverse systems, customs, and viewpoints exist side by side" in organizations and showed the existing contradictions between formal power and effective power and between fixed goals and actual actions.¹

II. Contradictions and Problems Faced by China's Social Organizations

From the viewpoint of development, the duality of China's social organizations has an inevitability about it. The special characteristics that marked the transition of China's society as a whole determined that it would be an extremely contradictory organism. From the beginning, contradictions were more or less implicit in the operational processes of organizations. After reform and the opening up to the outside world, they gradually revealed themselves and became problems which were hard for organizational reform to evade.

(1) Contradiction between multiple functions and specialization.

China's social organizations generally are comprehensive multifunctional bodies. Aside from functions clearly defined by specialized goals, they also undertake a number of informal but equally important functions. Of these, welfare is probably the most obvious, and this is what makes them significantly different from modern Western organizations.

The welfare function is mainly concerned with distribution of welfare benefits among an organization's members. It generally exists in various organizations because society still lacks the capacity to undertake it. It also exists because family nuclearization has caused a number of functions originally performed by the family to be gradually lost. Given these circumstances, the functions of China's social organizations simultaneously have the characteristics of a modern specialized organization and a traditional family. The benefits of the welfare function to an organization and its members are so significant that they can become an important standard for evaluating the good and bad qualities of an organization. Because organizational systems in China mainly revolve around vertical administrative relationships, individual organizations often are not, in the strict sense of the word, independent economic entities. In a certain sense, they can avoid market competition by fully developing their welfare functions. The importance of the welfare function can be seen from the preferences people have in selecting an occupation. The nature of the unit, not the nature of the work is often their first consideration. In China, actual earning differences are not only determined

by the nature of the work but, to a very large extent, also by the nature of the organizational unit.

The complex multiple functions which China's organizations have assumed have a significant effect on developing their specializations and are a contradiction to the general trend of organization evolution. First, multiple functions are likely to hinder organization specialization by affecting the realization of particular goals. Next, multiple functions add internal structure to an organization that has no connection with its particular goals. It creates organizational obesity and blurs functional lines. Finally, multiple functions are likely to increase various nonproduction expenses and affect organizational efficiency.

(2) Contradiction between the significance of interpersonal relations and generalized values.

The importance of interpersonal relations is a universal empirical fact and a prominent feature of China's social organizations. Interpersonal relations are not only the basis on which organizational members establish themselves and develop their work, interpersonal relations also affect the status of members in organizations and how they are evaluated. For purposes of rationalization, modern organizations, through specialization and systemization of organizational relations, strive to have members maintain a single functional relationship. This is to cut down on internal waste and improve efficiency. This also means that personal relations in a modern organization are oversimplified and impersonalized. The situation in China is just the opposite. Close interpersonal relations not only can exist in organizations, they can play an important role in organizational activities. In China, the dependence of individuals on organizations is very great. Since organizations are comprehensive, multifunctional entities and, in a certain sense, full-function societies in miniature, a number of aspects of people's lives are linked to organizations. This makes it quite difficult for individuals to separate themselves from organizations. Generally, social mobility between organizations in China is quite unusual.

Close interpersonal relations naturally have an aspect that is advantageous to an organization's operations. However, if the relations are too intense and it is impossible to exercise supervision within the context of an organization's fixed goals and operational rules, it is easy for them to become an extra burden and cause unnecessary disputes and conflicts. What is even more serious is that personal relations networks of this kind, which are formed by interpersonal dealings involving many emotional factors, pose a contradiction to the generalized values and behavior a modern organization needs to have. They make it difficult to deal with routine matters without personal considerations interfering and to treat people equally without discrimination. Imperceptibly, they add to the unsuitable elements in an organization's activities. It is precisely because interpersonal relations based on feelings often close off and discriminate against those who hold different views that the existence of this type of personal relations network frequently interferes with the discovery of talented people and their normal mobility. It therefore

makes it impossible to maintain normal competitive relations within an organization. Interpersonal relations can even become the goal which organization members seek because of the benefits they can derive from them.

(3) Contradiction between comprehensive authority and scientific management

Along with the gradual breakup of social structures and organizational specialization in modern society, the breakup and specialization of social authority have become even more pronounced. On the one hand, the breakup of authority in social organizations has led to its stratification, with it being divided between different strata, and on the other, it has led to its functionalization, that is, a division of labor according to function, with authority being distributed between different functional sectors. As a result, specialization is a fundamental characteristic of modern organizational authority. The more specialized authority is, the more it operates under the constraint of rules and regulations marked by reproducible technicality, predictability, and detachment. This constitutes an objective basis for guaranteeing that its exercise will be rational, that is, its effects will approach as close as possible the goals of society. Only in this way can we effectively restrict and limit authority and get rid of or reduce subjective and arbitrary factors when it is being exercised.

Owing to China's social organizations assuming multiple functions and possessing multiple resources, the nature of organizational authority often is not specialized but rather is of a comprehensive nature. Likewise, organizational management often is not specialized but rather of a comprehensive nature. The two-fold heterogeneity of organizations and their multiplicity of norms results in norms becoming blurred. Rules governing the exercise of authority lack clarity. This means that a large number of subjective factors easily enter into the application of authority. Authority of a comprehensive nature very easily leads to privilege and to its use for personal gain. Authority lacking in reproducible technicality very easily leads to abuse, that is, it becomes a tool which can be used arbitrarily. Obviously, using authority for personal gain and abuse of authority are two extremely prominent problems affecting the regular operations of China's organizations. In its broadest sense, organizational management is

the process of exercising authority. Irrational exercise of authority means irrational management. The comprehensive nature of organizational management is actually derived from China's traditional household management. This is why a patriarchal management style, to a considerable extent, still exists in China's organizations. Nevertheless, following reform and the opening up to the outside world, people felt more and more the necessity for scientific management. However, they at the same time felt that, while theoretically it could be carried out, in reality it would be very difficult to do. The main problem is perhaps not the theory but the practice. Rational organizational management is closely linked to rational exercise of authority.

In classical organizational theory, all organizational problems are efficiency problems. This is because the extensive market competition that comes with an industrial society first of all makes people realize that efficiency is crucial to organizational survival. The issue of efficiency is also prominently at the forefront of the shift in China's economic system from a purely planned economy to a socialist planned commodity economy. However, organizational efficiency is actually an overall reflection of an organization's various abilities (for example, its ability to meet goals, to conform, and to meet contingencies). Improving efficiency not only calls for rational management and rational disposition of resources, it also calls for a rational organizational structure. During the past 10 years when reform has been achieving a great deal of success, organizations have also been undergoing substantial change. For example, contractual relationships and methods of modern management have been introduced to increase organizational competitiveness and to stimulate the work enthusiasm of organizational members. However, while the problems of China's organizations obviously cannot be solved in one step, the contradictions and problems we have described above still exist and should command our full attention.

Footnotes: 1) For example, Robert Palaisanci (phonetic from the Chinese) in 1962 published *The Organization Society*, which discusses modern organizations; 2) Riggs, *The Ecology of Public Administration*. Bombay, Asia Publishing House, 1961, pp 91-92.

Shanghai Commentary Decries Illegal Publications

*OW 3402031592 Shanghai People's Radio Network
in Mandarin 1000 GMT 23 Feb 92*

[Station commentary]

[Text] Obsessed with the desire for gain, a handful of people are turning out all sorts of publications and tabloids and peddling them on the streets to swindle people of their money and to gain exorbitant profits. Their activities pose a danger and harm to society. This kind of phenomenon has been growing and spreading for a considerable period of time. Departments concerned ought to pay close attention to the phenomenon and take strict measures to ban these publications.

Some of these mimeographed publications and tabloids carry so-called important news circulating in the political sphere, while some others play up pornography, violence,

and feudal superstition in the name of publicizing science and technology. They dish up old, corrupt stuff in a new form and are a corrosive that confuses and poisons people's minds. They not only swindle people out of their money but also seriously endanger and harm the normal order of social life and the stability of popular morale in the municipality.

Not interfering in the [words indistinct] of these social trash means taking an irresponsible attitude toward the people's interests and social life. Because illegal publications are strictly banned according to the articles and clauses provided by the relevant laws of the PRC on news and publications, the departments concerned should show no mercy in eradicating such social trash and spiritual pollution in a bid to promote and protect the currently good situation favorable for steady development of social and economic life in Shanghai.

Beijing Views Governor's Departure

92CM01914 Hong Kong TANGTAL in Chinese
No 10, 13 Jan 92 p 14

[Article by Tseng Ching-fang (2582 1987 2455): "Beijing Studies the Problem of Dismissal of Hong Kong Governor"]

[Text] Towards the end of last year, the governor of Hong Kong was dismissed by Britain. It was an event that has been quite startling to the leaders in Beijing. First, it was somewhat unexpected, though they were somewhat well known for the "oust the governor movement," when the governor was actually ousted, before the event they were absolutely in the dark, and therefore were somewhat stunned. Second, as for what was behind the ousting of the governor (especially the effect of the triangular relationship between China, Britain, and Hong Kong), for a while they had no way of getting the situation clarified, and seemed very passive.

After the dismissal was made public, the New China News Agency (NCNA) immediately began looking for a wise person to conduct analysis and research. It is apparent that the research departments of Chinese supported organizations in Hong Kong helped to supply opinions, as did anglofile elements in Hong Kong intellectual circles.

According to those in the know, Beijing's initial position had two points. 1) A desire to prevent Britain from sending some pro-democracy figure to run Hong Kong. China cannot accept that an individual too strong and too inclined towards the democratic groups will become governor of Hong Kong. 2) They are very worried that Britain will appoint a Hong Kong person as governor. The CPC all along believed that Hong Kong is a matter involving China and Britain, and Beijing was afraid that Britain would "resort to demagoguery," and put forward a Chinese person to be Hong Kong governor, in reality "returning political power to the people" and not "returning political power to China." If this situation emerges, this would be very embarrassing to Beijing because the Chinese could not recognize the Legislative Council (Legco), but the Chinese could not fail to recognize a future Hong Kong governor (a Chinese), otherwise there would be no way to conduct much normal activity.

It is understood that through such opportunities as receiving foreign guests Beijing will make the worries described above known to the British, but the feeling is China will not officially negotiate with Britain.

Beijing's overall policy is to handle it in a low-key manner, and not get directly involved. Though the whole thing came as a surprise, it is nothing serious, because Hong Kong's future is a foregone conclusion.

When it comes to an appraisal of Sir David Wilson, the Chinese attitude is quite complex. Before the dismissal announcement, the Chinese side was somewhat dissatisfied with Wilson.

First, they thought that after the events of 4 June, he engaged in many actions which Beijing found intolerable

(note: the most important of these were his support for the new airport, the right of abode, and the human rights law).

Second, they believe that he was very "snake tongued," using the democratic groups to promote the first line (note: primarily advocacy of reform of Hong Kong's political system, and conversion from administrative to legislative guidance).

Third, they believe he has not been forceful in handling Hong Kong's economic problems (note: primarily they say he has not been forceful in attacking inflation, and cracking down on profiteering). Lu Ping, Yang Shangkun and others all hold this view. But after Britain announced the dismissal, Beijing instead had some people expressing sympathy, and China is worried that when the new group arrives, it will contain so called "hardliners." Though the CPC expressed no fear of a British hardline response, it has always felt that the new governor would be more difficult to deal with than Wilson.

As for the CPC viewpoint, what type of governor do they hope for? They naturally hope to see a governor who is friendly to Beijing, and respects Beijing's opinions. In this way, some matters that the China finds inconvenient to deal with directly can be handled through the governor. In addition, the CPC also hopes that this new governor will be able to do a good job managing Hong Kong's economy over the last years of the transition.

Chang Chien-chuan Discusses Post-1997 Politics

92CM01984 Hong Kong TA KUNG PAO
in Chinese 25 Jan 92 p 7

[Article by Legislative Councilor Chang Chien-chuan (1728 7003 3123): "Post-1997 Politics in Hong Kong"]

[Excerpt] [passage omitted] 1997 is now five years away. In the unpredictable world political situation, even if one wants to predict the political situation a week hence, one has quite a bit of uncertainty in store. I think that this has been borne out by the rapid changes occurring in Eastern Europe and the former Soviet Union. For this reason, if I want to discuss the political development of Hong Kong five years from now, I must at the very least first pose two basic assumptions.

First, I assume that Mainland China's existing political system will not undergo any fundamental change, and China's opening up and reform policies will continue forward. Second, I assume that the British government will handle the development of Hong Kong's political system in accordance with its pledges in the Sino-British Joint Declaration and the Basic Law.

In reality, these two assumptions illustrate that post-1997 politics in Hong Kong will develop within a constitutional framework established in the Sino-British Joint Declaration and the Basic Law.

In the Sino-British Joint Declaration and the Basic Law, the Chinese government promised that in post-1997 Hong Kong it will maintain the existing capitalist system unchanged for 50 years. The vast majority of people believe that Chinese consideration of this point was

explained by the value China attaches to the economic prosperity of Hong Kong, because Hong Kong has assisted China in opening up a large amount of investment and business opportunities, thereby directly furthering China's four modernizations.

But this arrangement of China's towards Hong Kong also means that after 1997 if Hong Kong wants to maintain its economic prosperity, it must continue to maintain social stability. When it comes to any political changes that would result in damage to Hong Kong's social and economic stability, China believes that this will counter the essential spirit of the "one country two systems" concept embodied in the Sino-British Joint Declaration and the Basic Law.

Hence, development of the political system in post-1997 Hong Kong will be a social process requiring skillful handling, and will be a process that aims to combine gradual political democratization with stable economic development. The provisions set forth in the Basic Law related to Hong Kong's political system in fact were the outcome of social processes in the five-year period starting from the first year following the drafting of the Sino-British Joint Declaration (1985) until 1990. It has already been proven that Hong Kong cannot be like many other former British colonies that overnight changed into full-fledged democracies, and in fact this type of reform was left out of the Basic Law.

But the Basic Law still makes allowances for the aspirations of the people of Hong Kong requiring the implementation of full democratization, as it establishes a timetable for the purpose of making it possible for Hong Kong to have general elections after 2007. Before 2007 in a one time election, in 2003 Hong Kong's Legislative Council (Legco) will have half its members directly elected, and half elected by functional groups. At present, only 18 of the 60 members of the Legco are directly elected, and the first direct election was only conducted in September of last year.

In reality, the Basic Law also gives explicit attention to the progress of democratization in Hong Kong. Article 68 points out that "it is stipulated that the method for choosing the legislature should be in accordance with the real conditions of the Hong Kong Special Administrative Region (SAR) and should proceed in an orderly step by step manner, finally reaching the goal of having all members chosen through a general election."

In the wake of the 1991 direct elections, Hong Kong's political system has already begun to gradually move from a colonial system towards a transition to a democratic system, and the 1991 elections also came following the rise of political party politics. Despite the fact that it does not hold a majority of seats in the Legco, the overwhelming victory of the Hong Kong Democratic Alliance makes it the largest political party in the Legco.

At present Hong Kong's political situation is a singular and interesting one: the officials of the government in power are not permitted or do not wish to form their own political party, and the biggest party in the Legco finds

itself in the position of an opposition party. This circumstance would be very difficult to find in other Western countries, but in Hong Kong it may well continue until 1997.

If this situation is not corrected, perhaps it will result in Hong Kong embarking on a period where there is no government. Of course we do not believe that this situation will continue after 1997, because at this time the Election Commission will elect the senior official of the SAR, and he will not have the many restraints that the present governor has, and will also certainly feel that if he wants to effectively govern Hong Kong, then he will really have the need to form his own political party.

I think that this is also important because in the current political situation, it has spurred 21 members of the Legco to form a "Qilian Resource Center." At the least, the "Qilian" can have a balancing effect on the negative influence of the Democratic Alliance in the Legco.

As for whether or not the "Qilian" will develop into a political party, this will primarily hinge on its members. But in the next elections in 1995, Hong Kong will undoubtedly see the emergence of a number of organized political groups. In 1995 all 60 seats in the Legco will be chosen by election, and contention for the seats will develop within each political organization.

At present, Hong Kong's business and industrial circles do not seem to be very interested in being drawn into party politics. Business leaders have traditionally believed that doing business has nothing to do with politics. I think that this set of traditional concepts they hold is beyond reproach. If Hong Kong has any difficulties, they can always walk away from it.

But this does not mean that Hong Kong's business circles are not interested in the most recent political developments in Hong Kong. On the contrary, they are very much interested in the results that this development will produce. Recently, I have often heard business and industrial figures express concern over the social welfare programs vigorously proposed by some members of the Democratic Alliance, because these programs are not very compatible with the free economic spirit that Hong Kong has believed in for a long time. For this reason, there is the possibility that the interests of people engaged in business could be attacked.

Politicians should be aware that Hong Kong's future depends to a large degree on its ability to maintain economic prosperity, and this depends on whether or not Hong Kong has a stable social environment. Political statements and actions that could destroy Hong Kong's social structure, regardless of how many people they attract, in the end will harm the long-term interests of the citizens of Hong Kong.

After 1997, relations between the Hong Kong SAR and the government of the People's Republic of China must be something which the political groups all make a real consideration, even if the masses have different political ideas. This relationship puts an appropriate restraint on

the political activity of the people of Hong Kong, and also cuts down on the radical tendencies of Hong Kong's political organizations.

The vast majority of Hong Kong people do not wish the government of China to interfere too much in Hong Kong. If the Chinese government does not take steps to improve its image in Hong Kong, then those political organizations which pander to Hong Kong peoples' lack of faith in the inclinations of the Chinese government will continue to be favored by people. But if China is able to continue pushing forward with the policies of reform and opening, Hong Kong's current position as the gateway to China can also be maintained, and political meddling by the Chinese government will correspondingly be reduced.

In sum, in the period prior to 1997, the political movement of Hong Kong towards full democratization will become

more and more intense. But with all of this movement it should be understood that after 1997 Hong Kong will exist within a socialist country but will be a quite separate capitalist society.

Therefore, at present the greatest need in the five year period before 1997 is to as far as possible adopt measures to continue Hong Kong's economic prosperity and internal social stability, and to ensure that Hong Kong is capable of a stable transition and experiences the smallest shock.

(This article was originally presented by the author in London at the symposium "Hong Kong's Economic Future" on 22 January, and has been slightly abridged for publication.)

END OF

FICHE

DATE FILMED

29 APRIL '92

